The MAGAZINE of WALL STREET

and BUSINESS ANALYST

MAY 29, 1954 85 CENTS

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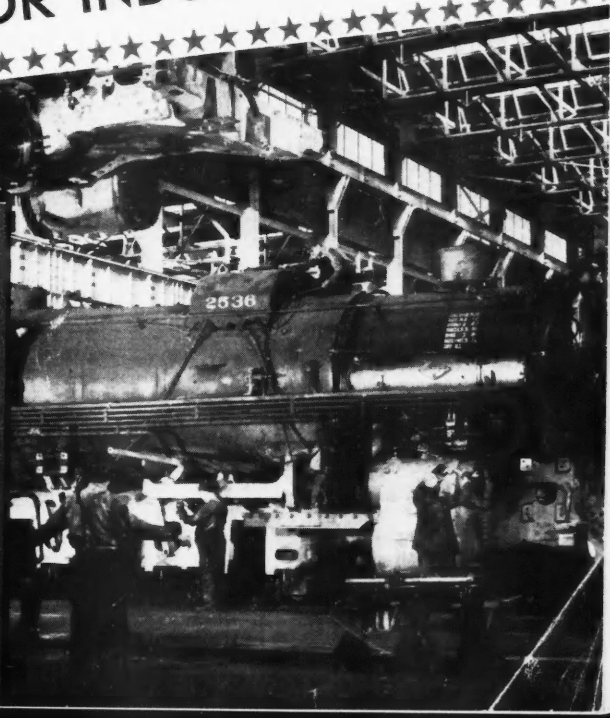

THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

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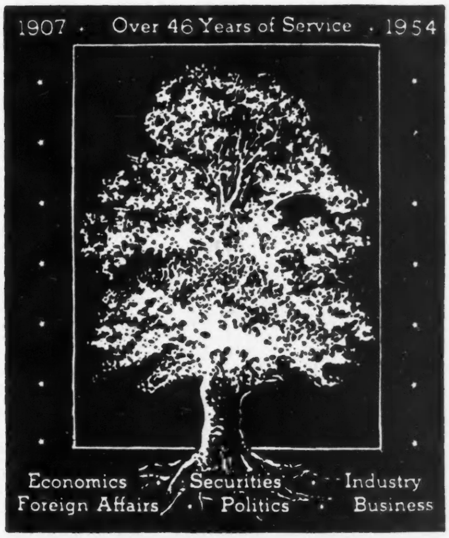
THE MAGAZINE OF WALL STREET

C. G. WYCKOFF, *Editor-Publisher*



The Trend of Events

THE CHALLENGE TO A FREE SOCIETY... As the thoughtful American looks about the world in which he lives, it is natural that he should be deeply troubled. What he sees is that very large chunks of the globe have already disappeared under the Red Banner, and that more are likely to be swallowed up. Other countries, still nominally in the camp of the democracies, are teetering dangerously. Even those nations, with which we are allied, and which firmly believe in individual freedom have nevertheless gone far along the road to socialism.

In effect, the United States is slowly becoming the only important nation in the world in which a free society is joined with a solid economy and in which free enterprise flourishes to the benefit of all classes of the population. It may be truthfully said that the only real hope for the world is for the United States to show that the free system under which it lives can work successfully. We can agree, therefore, with Secretary Dulles who has just said that unless we can achieve this goal "the bottom will fall out of American foreign policy and the world will look to dictatorship governments for leadership." This is a great challenge for America, the greatest it has met in its entire existence. It will take the hearts and minds of all of us to meet it victoriously.

We recommend to the attention of our readers the analytical discussion of business trends contained in our column "What's Ahead for Business?" This regular feature represents a valuable market analysis of importance to investors as well as to business men. To keep informed of the forces that may shape tomorrow's markets, don't miss it!

CAPITAL INVESTMENT PROGRAMS IN 1954. On the basis of estimated expenditures for new plant and equipment in 1954, it would appear that total outlays this year will be only 4% below those of 1953. Business plans call for an expenditure this year of $37.2 billion, compared with $38.4 billion. It will be noted that the decline is much more moderate than in the last previous business downturn—1948-1949— when capital investments receded about 12.6%.

Several factors have tended to maintain expenditures for new plant and equipment above expectations, especially considering the fact that since total production has declined some 8% it would have been normal for business to cut new capital outlays in proportion. On surface, it would appear that business men have sufficient confidence in the outlook to go ahead with their plans for fixed investment. It must be borne in mind, however, that a large part of capital expenditures are for long-range purposes and are not affected by short-term business swings. Furthermore, under the defense program important projects are under way and require completion. Such projects, too, are in no way influenced by the trend of business. Another important factor is that replacement requirements are considerably higher than in past years. Needed modernization of a substantial number of plants was postponed during the war and post-war years. As long as these facilities were required, their renovation was compulsorily suspended. The same considerations apply to manufacturing equipment with a large volume now approaching retirement age.

While the over-all outlook for new capital expenditures

BUSINESS, FINANCIAL *and* INVESTMENT COUNSELLORS : : 1907—*"Over Forty-six Years of Service"*—1954

is better than anticipated, the situation varies according to individual sectors. Thus manufacturing outlays are expected to decline about 7% but mining and commercial companies are planning an increase of about 3%. Little change is expected in the rate of public utility expenditures but it is significant that this is the first year in which an increase in capital outlays for this industry will not be registered since the end of World War II. The outlook for the railroads, to some extent, is indicated by the anticipated 25% decline in capital expenditures. This will be the first interruption for the carriers since the end of the war. Projected expenditures for other transportation groups—airline, truck and bus—will be about 4% less. It should not be inferred from the relatively favorable over-all prospect for capital expenditures, that this in itself guarantees a high degree of business activity for the rest of the year. As we have seen, a very large part of such expenditures is devoted to long-range planning and is more or less independent of short-term business conditions.

THE DIVIDEND TREND . . . For the first quarter of the year, dividend payments on stocks listed on the New York Stock Exchange increased by 11.2%, as compared with the corresponding period of 1953. Of the 843 stocks which paid dividends—out of a total of 1067 stocks listed at the end of the quarter—272 increased their payments over the first quarter of last year. The Stock Exchange reports that 515 companies maintained dividend payments without change, and 56 reduced or omitted payments.

The largest percentage increases were in the aircraft, retail and amusement groups, and the largest declines were in farm machinery and U.S. companies operating abroad. There were small declines in the automotive, office equipment and textile groups.

Part of the increase in the total amount of dividends paid is attributable to the fact that some companies decided to make payments in the first quarter of this year rather than at the end of last year in order to permit stockholders to benefit from the lower income tax rates in effect since January 1. It thus helps to explain the curious anamoly of some companies increasing their dividends at a time of general business adjustment.

A better test of the dividend trend will occur at the end of the second quarter. By that time, companies will have a more realistic picture of the probabilities of total earnings for the year and can shape their dividend policies accordingly.

ECONOMIC GERIATRICS — Geriatrics, the science of healing the old, is a concept of doctors which has been extended to mean more than protecting those in their last decades from the insults of age upon their hearing, sight and bones. Social and economic hurts are now to be healed also.

It is a development worth pursuing. There are nearly 14 million Americans over 65 today. That's more—in percentage and by count—than ever before. Many of them are still working. Their real incomes are far above what they would have been a generation ago. Their net worth is higher, and their health is better.

Making things for the over-65's can tap a large market, but the facts cited should warn the ambitious that it is a market of active persons, who are not ready for the chimney corner. Goods for this group should be adapted to them—but certainly not marked as such. Apartments for the two-elderly-person household are eagerly sought; they will be just as fiercely resisted should they be built in communities where everyone is of the same age. The same is true of hobby materials and special foods, and the host of specialized products which is in growing use by the folk of advancing age.

The manufacturer or distributor who starts after the old folks with his wares would do well to remember that this group differs as widely as possible from the other growing element of the population—children under 5. No one buys Grandfather's cereal for him; every choice is made by someone who has been accustomed to ordering his own affairs for perhaps fifty years.

In investing, the particular concern of The Magazine of Wall Street, the man who is approaching retirement age must remember especially that the long-term trend of rising stock values, which worked for him when he was 30, is now less important than the cyclical character of stock price movements. Since stocks subject to cyclical changes are more speculative, the older investor should stick to sound, conservative investments with yield rather than appreciation as the goal. Long-term investment for appreciation should be left to those whose life expectancy is still substantial.

INDUSTRIAL DECENTRALIZATION . . . in a recent issue, we published a detailed study of significant current factors in the redistribution of the physical facilities of the modern American corporation. It was pointed out that this important development is linked to the southward, westward and southwestward movement of the American population and the consequent rapid industrialization of the new centers which are becoming heavily populated.

This massive decentralization is inevitably causing changes in the corporate management set-up. While general policies are still controlled by the top echelon of executives, local plant operations up to division levels are now increasingly becoming the function of technicians of the vice-president and plant manager class. This division of responsibility affords much greater flexibility to the over-all operations of the corporation and establishes a better basis for economy and efficiency. Furthermore, executives charged with the responsibility of operating branch establishments are normally more familiar with conditions, affecting local labor, supplies, transportation and the like, than are the directors. There is also an intangible value of great importance with respect to the improved public relations that can be created in localities and regions, as the populations of these centres commence to identify their interests with those of the local plants, and, therefore with the corporation itself. All this is part of a peculiarly American phenomenon—a self-perpetuating revolution in industry, as it were—which tends to reduce, if not eliminate, the traditional differences between the various elements of the populations such as exists in Europe.

As I See It!

By JOHN CORDELLI

COMMUNIST BEACHHEAD IN THE WESTERN HEMISPHERE

Casting aside all pretense, the Communist Empire has brazenly established itself in the Western Hemisphere. Americans have been startled to learn that some two thousand tons of arms from the Skoda Works in Czechoslovakia, transhipped from Poland via Swedish liner to Guatemala, now potentially menaces the Panama Canal, only 750 airmiles distant. What gives this sinister development added significance is that the communist conspiracy has already heavily infiltrated into vital areas, such as Puerto Rico, Cuba, the Honduras and Mexico.

The recently adopted Caracas Convention was intended for precisely the purpose of preventing such hostile acts from abroad which might imperil the sovereignty of South American countries. Since the only potential aggressor is Russia and her allies, the Convention was obviously aimed at her. Yet, it has already failed of its purpose as can be seen from the unabashed shipment of red arms to Guatemala, which is essentially a direct threat to our security.

Thus far, with the exception of Nicaragua, the other nations of Latin America have made no protest. This does not bode well for solidarity of action between these countries and the United States.

Perhaps it is necessary to remind all concerned that the Monroe Doctrine is still in effect. The last time this was challenged was when Maximillian disastrously attempted to restore the throne in Mexico. We now have a new direct challenge. We may be sure, however, that the United States will be compelled to take the necessary action with or without support from the other nations involved.

ALUMNI NEWS

Dowling, in the N. Y. Herald Tribune

From the broadest standpoint, the latest communist moves in South America point up to the fact that the Soviets no longer conceal their basic purpose to envelop and isolate the United States. They are aided and abetted in this by the growing division between ourselves and our chief allies, a lamentable situation fully revealed in the proceedings at Geneva.

As a consequence, we must consider our own position. With the prospect of losing out in Indo-China, the position of Japan, Formosa and the Philippines becomes gravely threatened. This outer bastion is vital to the security of the United States as the balance of power in Asia shifts from West to East.

Thus, we see ourselves menaced in two vital directions, in the Western Pacific and in Latin America.

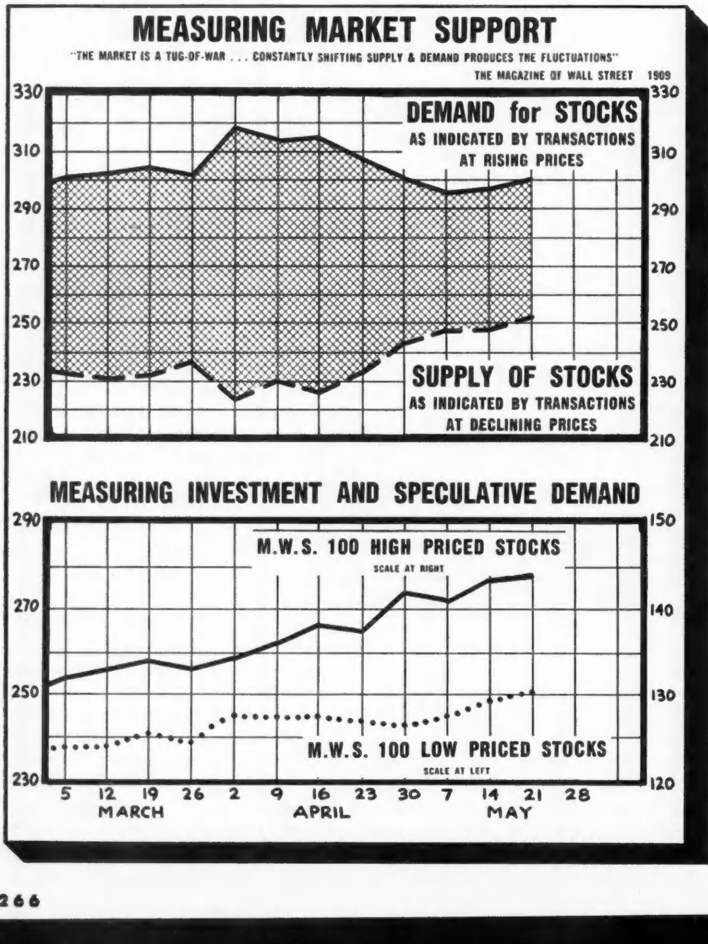
Basic to the fact that our world position is threatened is our undue reliance on the support of our allies. While there are some who claim that "we cannot go it alone" most Americans feel that the days of old-fashioned isolationism are ended and would prefer a solid system of collective security. Unfortunately, recent events are proving that this is unattainable in an ultimate sense. The answer seems to be that we must do the best we can with our present arrangements but that we should look further and rely mainly on ourselves to build up effective defenses for the security of the United States. If this means that we must greatly expand our military expenditures for our own use, we will have to resign ourselves to it. In the final analysis, self-reliance may prove the only key to our salvation. History has proved this to be the right course more than once.

Are Market Leaders at Unrealistic Levels?

Upward tendencies in the market carried somewhat further over the last fortnight. Major vulnerability is not evident in the technical indications, or in the level of price-earnings ratios and yields. But the advance has been wide and long, and reactions have not been abolished. Prudence, selectivity and retention of adequate reserve funds remain called for.

By A. T. MILLER

There are at least tentative indications that the stock market's advance is becoming more laborious. In the industrial list the rise in May to date has been less sharp than it had been from late March through most of April. Following a prior ten-day spurt which took them above their February recovery high after a considerable lag, further progress in rails has been relatively sluggish. Minor day-to-day recessions have been developing at more frequent intervals. The fact that more profit taking is having to be absorbed is, of course, not surprising in view of the large scope of the rise since last September. Moreover, it is being absorbed without undue difficulty so far, as testified to by the small scope of recent recessions and by renewal of strength after each.



It need hardly be said that the upward trend cannot be expected to continue indefinitely on a basis of roughly one step backward for every three or so forward. This painless correct-as-you-go process will in due time give way to at least a substantial intermediate reversal. But the timing thereof remains conjectural, as always. So far as the visible evidence goes up to this writing, the repeated minor dips have been sufficient to preserve an adequately sound technical position.

The Current Market

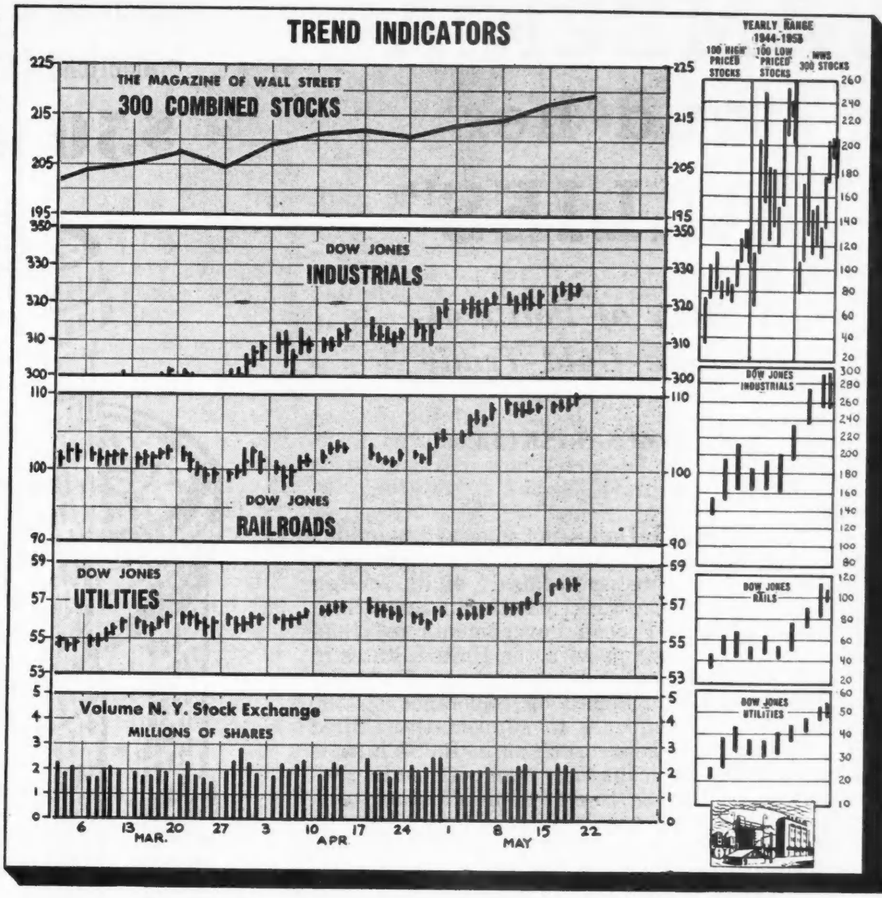
Despite the somewhat closer recent balance between willingness to buy stocks and willingness to sell, the advance was moderately extended over the last fortnight by the Dow industrial, rail and utility averages, as well as by our more inclusive weekly index of 300 stocks, with a firm tone shown as last week ended and up to our press deadline.

Being made up of only 30 prominent stocks, including a number favored by institutional buyers, the Dow industrial average, of course, exaggerates the scope of the actual general market rise—a rise which has left a great number of individual stocks well under their prior highs, whether measured from 1929, or 1937 or 1947 or from best levels of more recent years prior to 1954.

For example, the Dow industrials, currently around the 326 level, at the highest point since October, 1929, have extended their major-high of January, 1953, by about 11%, whereas our index of 300 representative stocks has bettered its 1953 high by less than 4%. It is true that there has been a considerable increase in selective demand for secondary stocks, as investors and traders become bolder in the search for higher yields than institution stocks offer, or in the search for special-situation profits. But market leadership still centers to a great extent in the minority of "prominent" stocks considered suitable for institutional funds of one type or another. These are also favored by many individual investors who want Big-Name

stocks and are unwilling, because of lack of knowledge or confidence, to venture off the beaten path in selections; and by still other investors who figure that they have the best chance of profiting, without too much risk, by "riding along" on stocks which, regardless of low dividend yields, are given a presumptive upward bias by more or less steady institutional buying.

The latter is not as foolproof a proposition as some may imagine. The principal growth of institutional demand is on the part of mutual funds and pension trusts; and it is at a rate more moderate than dynamic. These investible funds were not greatly less in total daily volume in the first nine months of last year than they are now, yet during that period into September the Dow industrial average fell about 38 points. Actual growth of institutional funds flowing into common stocks accounts for much less of the market rise since last September than has the general lift in investment and speculative optimism, the primary foundation for which has been less fear of business recession, the Administration's easy-money policy and tax program, and generally good dividend prospects. It should also be remembered that whereas pension trusts buy for long term, some mutual trusts are sellers at times; and can become more generally so any time market conditions become such that redemptions of their shares exceed new purchases.



Assuming that business recession either has been completed or will not be extended in important degree before cyclical revival begins, it is not possible to contend that the market, despite an advance of about 71 points by the Dow industrial average since last September, has reached a level of major vulnerability. Although price-earnings ratios are higher, and average yields lower, than in some time, they are still fairly moderate, if one takes past extremes as the criterion. "The Dow" is at 11.9 times 1953 earnings of $27.46 applicable to the average, yielding 4.76% on 1953 dividends of $15.52. The price-earnings ratio was 19.1, the yield 3.31% at the 1929 high; and the comparable figures were 16.9 and 3.71% at the market high, and 15.6 and 3.23% at the 1946 high. It can be added that the spread between stock and bond yields remains much wider than at the past market highs cited.

This year's earnings on the average may be a little lower than 1953's $27.46 a share, but hardly greatly so, due to aid from EPT lapse. Dividends, on present indications, probably will at least moderately exceed 1953's, since corporate cash positions are more comfortable, reflecting inventory liquidation, increased depreciation charges and reduced capital outlays, all permitting a higher percentage payout of earnings. What about price-earnings ratios and yields on run-of-the-mill stocks? The answer is that, since the general market is further behind the 30 Dow industrials than it was at the 1929, 1937 and 1946 highs, the conservatism of over-all price-earnings ratios and yields, as compared with past extremes, is necessarily more marked than in the case of the Dow average.

There is no very clear-cut pattern of selectivity in the current market, except that, despite exceptions, good-grade stocks continue to fare best. Stock groups which have recently been showing above-average strength include aircraft, amusements, business machines, chemicals, construction, containers, coppers, department stores, drugs and toilet articles, machine tools, paper, petroleum, shipbuilding, steels and sulphur.

Market advances do not run forever or extend to the sky. This phase has already run over eight months, without significant interruption, lifting the Dow industrial average about 28%, our composite weekly index some 23%. If stocks are not as extremely priced as at times in the past, neither are they nearly as cheap as at other times in the past. Reactions of more than minor scope have not been abolished. There is more to be said for discretion, conservatism and careful selectivity than for letting profit-making hopes soar too high on general optimism.—Monday, May 24.

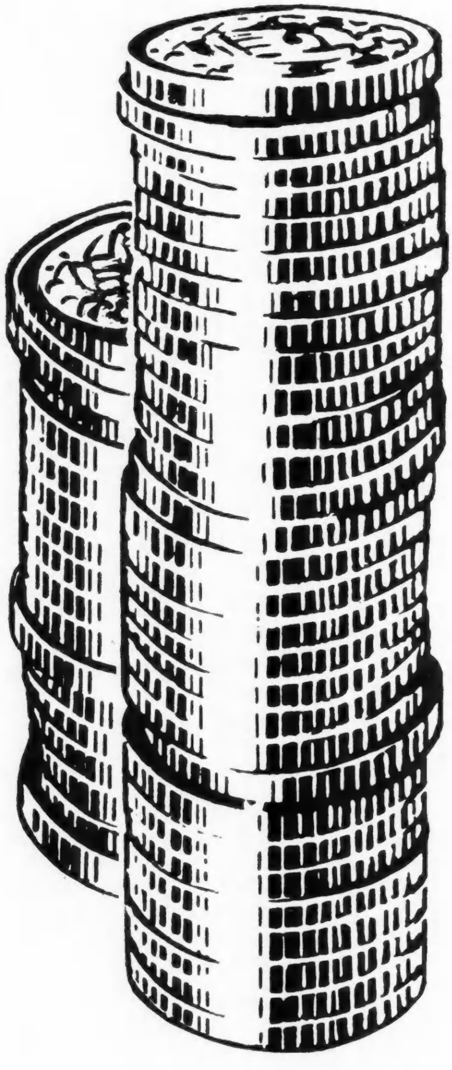
AMERICA and her "ALLIES"

A Story of Political Intrigue - Gold - Trade

By JAMES HASKELL

Postwar aid to Europe Has Cost American Taxpayer Nearly

$50 BILLION



When Secretary Dulles not long ago made his famous remark that the United States might have to make an "agonizing reappraisal" of its foreign policies, he was pointing directly to the blatant failure of the British and French governments to stand firmly in concerted action with the United States in all phases of the world-wide struggle against communism. Repeated instances of reluctance on the part of these governments to support the United States in critical decisions such as in Indo-China is causing many Americans now to question the advisability of continuing to extend military and economic aid on the present vast scale.

Since the end of World War II, we have already paid out nearly $50 billion to European nations alone in loans and grants for military and economic assistace and our present commitments would raise this immense total to $60 billion by 1957. When the American taxpayer regards these figures and considers the half-hearted support which our major allies are giving us, it is not difficult to see why influential members of Congress, mindful of this reaction, want to see proof of substantial diplomatic support from our allies before more aid is extended. This newly developing attitude has recently been succinctly stated by Senator Smathers of Florida, who said:

"The agonizing appraisal (of our foreign policies) must be accompanied by an admission that we have unwiselly spent—perhaps foolishly wasted—some of the billions that have been used for foreign assistance. For we seem to be losing our allies fast, rather than binding them more closely to our side. Our historic and dearly held allies seem to have become less constant, more fickle in their allegiance and friendship."

A Significant Change in Attitude of America

These words eloquently tell the story of a changing American attitude toward our allies. Having spent billions in defense of Europe and the free world, the American citizen reasons that we have received too little in return for these huge contributions and is increasingly resentful.

Nor is that feeling diminished when they hear Winston Churchill, speaking before the Primrose League, the famous conservative party political organization, urge the establishment of stronger links with the Soviet Union. It is worth pondering over his words:

"We should establish with Russia links which, in spite of all distractions and perils and contradictions, will convince the Russian people and the Soviet government that we wish them peace, happiness and ever-increasing and ever-expanding prosperity and enrichment in their own mighty land—."

Not too long before that speech was delivered, the Soviets and the British government negotiated the sale of $100 million Russian gold, and very active negotiations, in fact, are being conducted, in which Soviet China is taking part, to facilitate a great increase of trade between the various parties.

In the eight post-war years, Britain has received from the United States in military and economic aid, over $9 billion, without including the $3.75 billion loan after the end of World War II. One must sympathize with the American taxpayer, who has footed this bill, in addition to all others of the kind, and who has come to the conclusion that Britain apparently gives America its greatest support only when the former needs American aid. Now that Britain has regained a large share of economic strength—to an extent due to U. S. aid—it seems to the American taxpayer she pursues a policy quite independent of the United States, particularly in regard to Asian matters.

Since the end of World War II, free Europe has received a total of about $30 billion in American aid. A little more than half of this went to Britain and France—about $9 billion to Britain and about $7 billion to France. These two nations should be our mainstays not only in defending Europe but Asia and the Near East, as well. Yet, we find the British government, while adhering to the Western alliance on surface, nevertheless severs herself from us at crucial moments. Witness, for example, her recognition of Red China; her opposition—in concert with India—to permitting the United States to end the war in Korea in a satisfactory manner when we had the opportunity to do so; the current debacle at Geneva, which is greatly weakening the position of the United States.

Not Much Support Here

Not only is there massive opposition in Britain to American policies, especially those concerning Asia, but France itself, which is still largely dependent on American military aid has been backtracking. Worse, France is infested with a large and potent communist party, with about one in every four voters regularly casting their votes for communist office-seekers. The situation is hardly better in Italy, which has received over $3 billion in U. S. economic and military aid. There, the communist party — despite surface manifestations—has been growing in strength and remaining an active and potent menace.

It is not remarkable, under these circumstances, that political intrigue among our allies—each trying to gain ends at the expense of the Grand Alliance — is rife. British and French diplomacy, apparently having learned nothing from the past, is pursuing the same old costly road which leads to appeasement and war. Americans have not forgotten the failure of British diplomacy which led to World War I and which finally ended with a half million American casualties and a war bill of some $40 billion. Nor have they forgotten that the way to Pearl Harbor and the preceding assault on China by Japan was opened when the British Foreign Office refused to support Secretary Stimson in the 9-power declaration in the early 'thirties in an effort to hold Japanese trade.

Unsound French policy, too, has involved the United States, to the latter's cost. Clemenceau's folly after World War I led him to demand impossible reparations from the defeated Germans and led directly to Hitler and World War II. The monumental mistakes of the British and French in the days prior to Munich obviously require no comment.

As the American citizen ponders the terrible effects of these costly mistakes in the judgment of our allies which finally involved the entire world in catastrophe and opened the way to world communism, he is not to be blamed for being highly critical of more recent manifestations of blindness on their part. Military aid is still costing the American taxpayer about $3.5 billion a year. Congress, watching the proceedings at Geneva at which we have, in effect, been abandoned by our allies, may feel that this huge sum might be better spent at home, or at least, that it would be worthwhile cutting it to the bone.

By the end of fiscal 1957, which is not far off in terms of preparations for national commitments, our post-war foreign aid to Europe alone will have cost the American taxpayer nearly $60 billion. A sum as vast as this could have paid for all the new highways that America needs; schools, hospitals and other needed institutions. Since the end of World War II, it could have saved the average American family almost $1,000 in taxes. It is two and a half times the total amount of the U. S. farm program in over a decade. It is nearly four times as much as the government spent for public works during the New Deal.

The American people are a generous people and gladly made the sacrifice that deprived them of more new roads, and more schools and hospitals in the hope that it would help restore the free world to a sound economy and ultimately bring peace and security after a true collective system against the communist bloc was set up. They would still be glad to continue to make these sacrifices if they could be sure that our allies would stand firm with us.

What It Has Cost the U. S. Taxpayer in Loans and Grants to European Nations

	Billions
1. From World War I to 1940	
Great Britain	$ 5.5
France	4.2
Other European Countries	3.7
Total	$13.4
2. Lend-Lease World War II 1941-45	$25.0
3. Economic Aid*	35.8
4. Military Aid	12.0
Total	$72.8
Combined Total	$86.2

*—Including $3,750,000,000 Loan to Great Britain.

Major European Recipients of U. S. Aid (1946-1953)

	Billions		Billions
Great Britain	$9.0	Greece	$1.9
France	7.0	Netherlands	1.3
Western Germany	4.0	Austria	1.0
Italy	3.5		

Other Forms of Aid

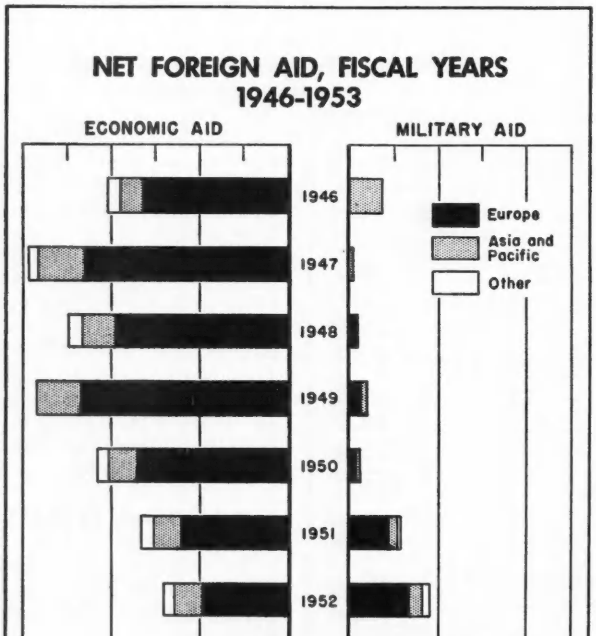
In order to assist the economies of some European allies, we have even embarked on an ambitious program of offshore procurement for military equipment, to be manufactured abroad, running into hundreds of millions annually. This has kept

numerous European factories running, often largely manned by communist party members, but some of our own plants have shut down or are operating only partially, as a consequence. Some of our three and a half million unemployed could have found jobs if this equipment were manufactured at home. This is what many Americans are saying.

For the protection of our allies, as well as ourselves, we have laid down military bases in many parts of the world. The cost of operating these bases comes directly out of the pockets of the American taxpayer and, incidentally, the nations which harbor these bases benefit economically from the hundreds of millions of dollars spent each year by American soldiers, sailors and airmen stationed there.

It would seem that in spite of the giant sums we have spent abroad to maintain economic stability among the free nations, especially those of Europe, and though lip-service is sometimes paid by our allies to our leadership which has been forced on us, we still do not command real support in establishing non-communist policy, especially as regards Asia.

Having placed Europe in a relatively strong position, it is now necessary for America to consider a shift from military aid to Europe to military aid to those nations in Asia which will support our policies. It is a matter of great concern to American policy makers lest the diminution of aid to Europe in favor of Asia should cause some of our allies on the continent to support us even less actively in European defense than they have. France has thus far remained obdurate on the question of joining the European defense community and some influential French leaders are even thinking in terms of reviving their traditional alliance with Russia as a foil to German expansion. The British have been playing several games simultaneously, alternately encouraging West Germany and France, taking care at the same time to make no firm commitments. This leaves the United States in the position of "holding the bag".



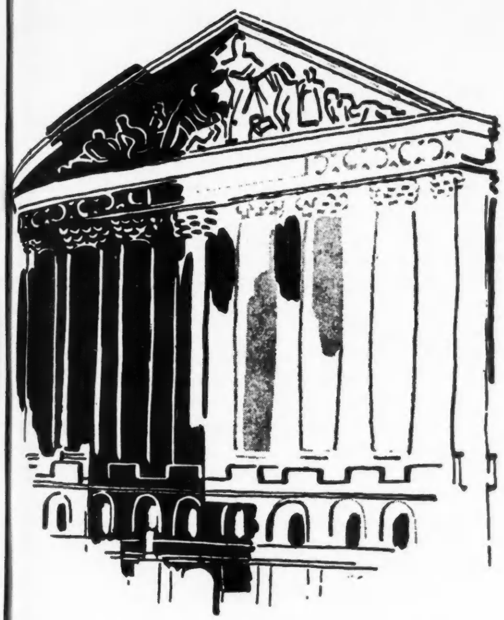
Foreign Aid and U. S. Taxes

As stated previously, foreign aid is still costing the American taxpayer $3.5 billion annually. For fiscal 1954, our deficit will be almost $3 billion and will probably be larger in fiscal 1955. If a large share of foreign aid were applied to our deficit, it is obvious we would come much closer to balancing the budget. In this connection, it is worth commenting on the fact that the Administration feels it cannot afford the raising of exemptions on income—proposed by some leading democrats—on the ground it would cost the Treasury some $2 billion a year. Many economists think that the raising of exemptions would aid buying power at a time when the country needs it. Yet the Administration dares not support this otherwise worthy move because foreign commitments demand that tax revenues from Americans remain as high as possible in order to find the necessary funds.

While Uncle Sam continues to hand out generous gifts, at a time when our own economic situation could stand some improvement, it is ironic that the recipients of our aid are outdoing us in the world markets. U. S. exports are continuing to decline while British and West German exports are steadily rising. We have been losing exports at the rate of about $1 billion a year and American manufacturers are increasingly feeling the effects of competition in world markets. This, however, has not prevented foreign nations from demanding that we cut our tariffs, which would have the effect of furthering foreign competition in our own markets while American exporters are handicapped by all manner of trade restrictions in many countries. Actually, about 55% of imports to the U. S. are duty-free. On the balance subject to tariffs, the average rate is only about 12%. A generation ago, it was 50%. It would seem that the United States has already gone pretty far on the road to low tariffs. Compared with the import-duty rates of 43 nations, the United States already stands 8th from the bottom. In this connecion, it is significant that British industry now looks with favor on joining the Schuman steel-coal consortium. This would raise up a formidable combination which would facilitate competition against American interests on the long term.

At the same time, while Britain shows increasing opposition to the United States in questions affecting our foreign policy, she has taken advantage of our financial aid to use her new-found economic strength to compete in world markets on a scale that has already permitted the restoration of London as an international credit center. While still accepting extensive American military aid, it is not generally known among Americans that Britain now possesses the formidable total of well over $2 billion in gold and dollars.

In view of these facts, it is not surprising that America should be considering a reshaping of its foreign policies, militarily, politically and financially. The fact of the matter is that, under present circumstances, the cost of (*Please turn to page* 310)



Strong Impact of Government's Cheap Money Policy on Investments

By J. S. WILLIAMS

Fixed income securities like bonds and high grade preferred stocks appeal to a certain class of conservative investor for whom virtually assured stability of payments is more important than capital appreciation yet the investor must be alert for changes in the market pattern to take advantage of these shifts.

The implication of low borrowing costs now prevailing under the "easy money" policy of the Government is that the time may be near at hand for a close check of current fixed income holdings for possible sales or switches. Certain utility stocks could also qualify as candidates for replacement.

The credit program of the Federal Reserve System and soft business conditions have dropped interest rates to such a low level that prices of most fixed income securities are at a point where portfolio in these issues would be lightened for maximum protection of investment.

The chance for further appreciation of prices in these groups is the smallest in more than a year. Marked advances during the past year have trimmed the potential for additional gains. Even more importantly, the historically low level of money rates creates a virtual ceiling on prices of outstanding issues.

Money Rates at Bottom

New reductions in interest costs would be necessary to help prices move up but they are unlikely. The ability and desire to lower money rates further are far outweighed by the chances for a future increase.

However, there may be intermittent strength in prices under temporary stimuli. These periods should be used for portfolio rearrangement.

The annual return on these issues is fixed at the time offering is made initially. Day-to-day market values are determined basically by the prevailing cost of borrowing with due allowance given for investment risk over "pure money rates." For example, a bond brought out when 4 per cent interest was needed to market the issue at par, increases in value as the general money rate drops to 3 per cent for new issues because the $4 annual payment per $100 of principal on the outstanding issue must be continued.

On the other hand, the price pattern works against holders as interest cost advances.

It is generally accepted that the market is currently giving generous value to the risk element inherent in each of the various classes of securities. The spread between prices of highest quality Government bonds and good grade preferred stocks is more than ample to compensate for the additional risk in the stock.

The differences in yields on debt issues maturing soon as compared with those coming due in 20, 25 or 30 years or more are held to be close to ordinary relationships although yields of some nearer term issues are a bit depressed.

These levels have been set following a year when bond yields and money rates went through a series of gyrations unmatched in history. There was a sharp advance in 1953 until late May 1953 when the rise was halted. After holding for a few weeks, the market experienced an even sharper decline through the end of the year and continuing until 60 days ago.

Increased Government attention to the influence of borrowing costs on the economy may make repetition of such a move highly unlikely. It was a harrowing lesson for the new Administration.

The Eisenhower platform was committed to a "sound dollar" program and after the election, businessmen and bankers became apprehensive over the possible effects of such a move and took steps to prepare themselves for it.

Effects of "Hard" Money Policy

While first moves of the new Government were certainly directed at firming credit, the movement of bond prices early last year indicates that speculation was a greater market influence than basic determining factors.

There was a very real demand as 1953 commenced for credit from business. The money was wanted to help carry expanded inventories, larger receivables and for plant and equipment expenditures. Consumer credit was rising rapidly and the sales finance com-

A Year's Change in Price of Government Bonds

Treasury	With Money Rates At 2.75% June 1953** 1953 Low (Bid)	With Money Rates Now At 1.70%** Recent Price Bid)
*2½s '58-'56 Mar.	97.4	102.12
*2¼s '59-'56 Sept.	95.4	101.26
2¾s '59-'56 Sept.	101.28	104.12
*2⅜s '59-'57 Mar.	96.0	102.12
*2⅜s 1958 June	96.8	102.16
2¾s '63-'58 June	102.10	106.16
*2½s 1958 Dec.	97.0	103.12
*2¼s '62-'59 June	92.0	101.6
*2¼s '62-'59 Dec.	91.30	101.6
2¾s '65-'60 Dec.	103.10	108.24
*2¾s 1961 Sept.	100.18	104.12
*2½s '67-'62 June	91.26	101.20
*2½s '69-'63 Dec.	91.2	100.30
*2½s '69-'64 June	90.26	100.18
*2½s '69-'64 Dec.	90.20	100.16
*2½s '70-'65 Mar.	90.17	100.6
*2½s '71-'66 Mar.	90.16	100.6
*2½s '72-'67 June	89.28	100.4
*2½s '72-'67 Sept.	89.28	100.4
*2½s '72-'67 Dec.	89.28	100.4
*3¼s '83-'78 June	98.14	109.24

*—Subject to Federal taxes. Quotations after decimal point represent 32nds of a point.
**—Prime commercial paper.

panies were large borrowers, too.

But even more important, was anticipation financing by businesses which wanted the money to care for later needs but wanted to save on interest costs.

This was encouraged by the fear that the Treasury would borrow heavily on long term securities in an effort to extend the average maturity on outstanding Government debt. These issues, it was believed, would depress prices as yields on new offerings would have to be "sweetened" to make them attractive.

A Treasury refunding operation in February 1953 which offered the investor a choice between short and medium term securities found few takers of the longer issue. Another exchange offering was even more unsuccessful as holders of the maturing issue asked for cash redemption.

Meanwhile, short term rates, typified by 91-day Treasury bills were steadily increasing. They moved up from 2.00 percent at the start of 1953 to a twenty year high of more than 2.40 percent in May.

The climax was reached soon after the Treasury brought out an offering of new 3¼ percent long term bonds. Although over-subscribed by the public at par, the tight credit situation forced them to drop to 98½ soon afer issuance.

Reversing the Trend

Recognizing that too-rapid tightening of credit could have an adverse effect on business conditions, the Federal Reserve took steps designed to relieve the situation.

It commenced to buy bills in the open market in large volume, adding to the money supply. Reserve requirements were eased toward the end of June and the fast climb back was started in earnest.

The Treasury helped by tailoring offerings to suit market conditions. Debt management was forced to take a secondary position to the needs of business.

Sensing the shift in sentiment, the market soon recovered its equilibrium and prices improved even faster than they had fallen. Short term bills by the end of 1953 were priced to yield 1.57 percent and subsequently dropped below 95 percent.

By September 1953, long-term bonds had recovered more than 5 points in price from the May low. The Treasury 3¼'s were being traded at nearly 106 by the end of 1953. They added several more points after the turn of the year before halting near 110.

Meanwhile, business was running into trouble. While the readjustment was in process, companies required smaller funds than before. Money that had been tied up in inventories and receivables was freed.

Borrowing in the first five months of 1953 which exceeded requirements was at the expense of second half volume. Other companies that might have come to the market for funds in the second half of 1953 deferred borrowing plans as costs were easing.

At the present time, financial requirements of business are still low and should continue so until there are definite signs of an upturn in conditions.

Barring an unexpected improvement in economic activity, tax collections may fall short of forecasts forcing the Treasury into the market seeking funds not supplied by the revenues.

Long term Treasury financing which would make corporate borrowing more expensive may be deferred until later this year in order to avoid competition with other borrowers under Secretary of Treasury Humphrey's anti-recession policy.

By steering clear of long term issues, money seeking permanent investment is diverted into corporation issues and mortgages.

Sale of a long term Treasury issue would be easy under current circumstances, though. The Treasury may decide sooner than anticipated to extend the maturity of Government debt by coming out with one to soak up excess funds of insurance companies, pension funds and savings banks.

Regardless of the timing of the next long term issue, interest costs should remain low. Most money market analysis agree, however, that there may have been an overzealous run-up in prices with correction a strong probability.

Position of Government Bonds

Government issues have been at the forefront of the improvement which has marked the pricing of virtually all fixed income securities in the past year. Prices had an unprecedented rise until March at which time they levelled off.

The short maturities did better than those out at the other end. A sharp decline in bank loans, due partly to business retrenchment, and partly to the end of excess profits taxes on Jan. 1 brought a strong demand for short-term securities.

Banks have been important buyers in recent months of all maturities up to 10 years.

Because of the demand, prices on the near term issues ran up to a point where they became unattractive to institutional investors like pension funds and insurance companies.

To some extent there was a shift into the longer bonds as a means of propping earnings. But a yield of only 2.75 percent now available on the 3¼ percent U.S. issue is considered unattractive by many investors.

Yields on the longer issue might have declined

even further, though, were it not for the fear that another new issue would reach the market to soften prices and yields of outstanding bonds.

The short term Governments have declined in yield to a point where their purchase is almost unattractive. Further declines in yield, or price increases, seem unjustified. Furthermore, if business does gain momentum, banks will be selling their short term holdings to raise cash that would be needed for business loans.

State and Municipal Issues

Offerings of state and local governments may top the amount sold in 1953. Yields declined rather markedly during the past year despite the heavy volume. However, there was a log-jam of issues brought to market in February and March of this year which caused unsold inventories to back up to the highest point in some time.

Yields on high grade tax-exempts which had been as high as 3 percent in May 1953 backed down to 2.35 percent by March.

Concessions given buyers to move issues brought out in March resulted in an increase of about 10 "basic" points in the yields on high grade municipals. These were the first fixed income securities to show a price reaction following the long upward climb since June.

The prospect of many large issues still to come and apprehension over the value of the tax exemption feature if taxes are reduced should act as a brake on further price gains.

Nevertheless, yields may still be considered worthwhile for some investors in very high tax brackets.

Corporate Bonds

Corporate bonds have levelled off at a point where any new issues in the AA quality class can be sold relatively quickly if priced to yield just over 3 percent. At 2.99 percent, the issues encounter resistance. It will be difficult to break out of this pattern and may never happen if Governments hold at current levels or do better.

Much of the new issue volume has been for the purpose of refunding those sold exactly a year ago at interest costs about one full percentage point higher than now prevails. Because of the possibility of having outstanding bonds called, prices of some top grade issues have held below their full valuation. But any buyer assumes a risk of losing principal if he acquires one of these bonds above call price to take advantage of the relatively high yields available.

The testing ground for corporates comes in the next few months as the calendar of offerings begins to lighten.

Preferred Stocks

Preferred stocks have received some support from buyers who might ordinarily have acquired bonds but who wanted a more generous yield than that available on good quality debt securities.

Prices are at the highest level in over three years but still well below the 1946 peak when speculative fervor had gripped the markets and lost sight of risk values.

High grade preferred stocks return about 4 percent in yield, which is about one point higher than top quality bonds.

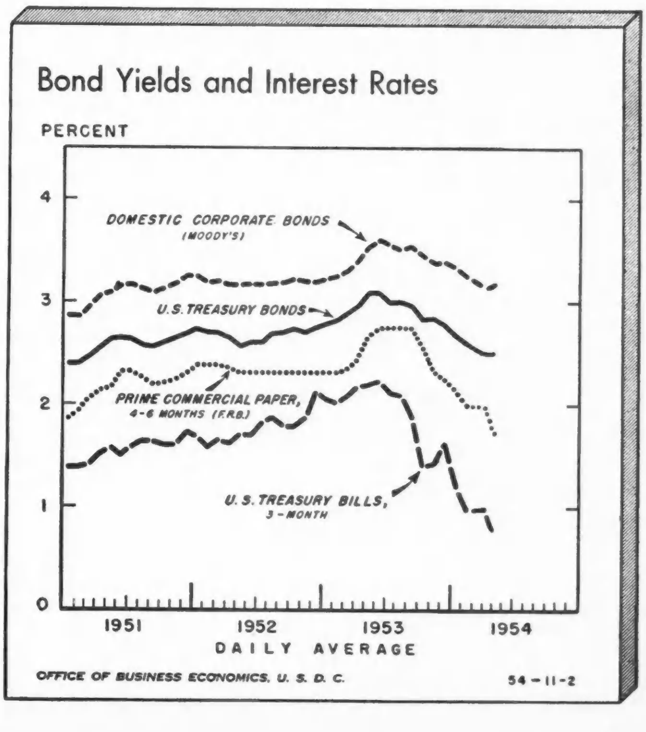
The supply of preferred stock available for investment is much smaller than the supply of either corporate bonds or muncipals.

Some situations where quality is not tops, can be found to yield a steady 5 percent a year.

Yields of common stocks of the best quality public utilities are less attractive with some holders switching into other securities offering a better return. Gains in power consumption has not been as marked this year as 1953. Profits have been maintained but in some cases, expenses outran revenue gains. Larger companies in the field can take the business readjustment easier than some of the smaller corporations. While the long-range outlook is attractive for these investments, the current market position is probably in need of some adjustment.

Conclusion

In conclusion, it may be stated that the extraordinarily sharp rise in the bond market, especially in federal issues, has probably come to a halt. In fact, the recent action of the market in recent weeks bears this out. For the average investor, consequently, the position of prime bonds is such as to discourage buying at current levels. Large institutional buyers, such as insurance companies, are compelled to invest funds as daily receipts from premiums and other income arrives in order to avoid loss of return. In contrast, the position of certain categories of sound preferred stocks has improved as yields obtainable there are still considerably higher than those available in high-grade bonds.



Bond Yields and Interest Rates

Test for Corporate Management Here Now

By J. C. CLIFFORD

It may be stated at the outset that as the year 1954 unfolds—a year of growing competition in business and industry—management is meeting a severe test. In recent years of flush prosperity, the great majority of companies, even those which had rarely done well before, were able to score substantial profits. With many, however, it is a moot question whether this was the result of good management or of merely benefiting—more or less accidentally, as it were—from the vast over flow of business in this country which resulted from the pent-up demand for goods directly after the war years, and, later, from the general prosperity which accompanied the Korean war.

However this may be, the best managed companies are those which took advantage of their prosperity during the period and laid plans to meet future contingencies. This has taken the form of building up large financial reserves; expansion and modernization of plant and equipment; increased use of automation in manufacturing processes; improvements in technology; research and development of new products; and, above all, the development of effective leadership in management.

The Objective

All these constructive moves have one common purpose and that is to place the company in the strongest competitive position possible. If the limits of the industry in which the company operates are too circumscribed to reduce its inherent vulnerability to the effects of economic change, the best managed company will not hesitate to widen the scope of its operations, if need be, even to enter entirely new fields. Even when its field of operations is already quite broad, it seeks to expand the number and type of products to reach the widest market, thereby reducing its dependency on the individual products. This is typical of such important concerns as Goodrich, U. S. Steel, General Foods, Union Carbide, Du Pont and others of their class.

While it is obvious that diversification has been a keynote of the development of many of our largest corporations, it does not necessarily follow that companies operating in a single field cannot have adequate protection in a competitive period. This, however, presupposes that the company is in a highly strategic position within the industry; in other words, that it is more or less dominant in its particular sphere. The three companies listed under "building" in the accompanying table offer a good example. While each is important in its own branch of the industry, U. S. Gypsum stands out as a true leader and is less subject to competition than the others. This is reflected in its impressive total of expenditures for additions to plant and improvements which were easily financed through the bulk of retained earnings, itself a result of a consistent and conservative dividend policy. This is also reflected in the superior record of U. S. Gypsum with regard to maintenance of earnings at consistently high levels whereas earnings for the others were less stable, in comparison. While all three have endeavored to reach as wide a market as possible, the leader has been more uniformly successful, based on a solid and consistent improvement of product fully matched by an effective sales system.

Somewhat similar comparisons may be made of the other groups listed in the table. These have been arranged to show the relative position, within the respective industries, of three representative companies. The first is considered to have developed the most effective management policies; the second is not far behind but is still in process of attaining its objective; and the third is deemed, owing to different circumstances applicable to the individual companies, as not measuring up to the others according to hitherto demonstrated capacity for growth. This does not indicate that these companies, at some future time, will not improve their relative position but rather that they have been unable as yet to reach a thoroughly dependable earnings position. An outstanding exception, in this instance is Masonite which occupies a strong position but which has been listed in contrast to the even stronger companies, U. S. Gypsum and Flintkote.

Two columns in the table demand attention; the column giving total "retained earnings" per share from 1946-1953, the post-war years, and the column total "net property additions" per share. These figures are important because they reflect the effectiveness of management in utilizing earnings with respect to development of physical resources and products. Although there are many exceptions, it may be stated that it is generally true that the greater the percentage of retained earnings used for expansion and modernization of plant and equipment, which includes all the techniques required in improving technological processes and in creating and developing new products, the more progressive is the management and the greater the prospect of keeping up with changing conditions.

Important Factors in Management

From the investor's viewpoint, it is essential to realize that more important even than the size of earnings is the use to which they are put. Many companies are in the position of having retained large sums (after dividend payments) in previous years, but which have not effectively utilized these reserves so that while they may be cash-rich they are not in the best position to meet the competition of more progressive companies. A glance at the table will show that in the majority of cases, the companies listed in first position have devoted more of their reserves upbuilding the company than the others. This would be more true of those industries which are still in process of active automation than those—such as tobacco, for example, which had already reached a high in previous years in this respect.

A clue of the effectiveness of management policies may be found in first quarter 1954 earnings reports. In our recent review of this subject (May 1 and May 15 issues) it was pointed out that sales and earnings for the larger and stronger companies were considerably better than those that are secondary or "marginal." It was indicated that the first quarter was the real test of corporations in a period of contraction in business. Reference to first quarter reports will be found useful in determining the success or failure of companies to meet changing conditions.

While the effectiveness of management is extremely important, the im- (*Please turn to page* 303)

*Comparison of Representative Companies in 8 Industrial Groups**

	Post-War Record: Number Years Some Div. Paid	Post-War Record: Total Retained Earnings Per Share 1946-53	Post-War Record: Total Net Property Additions Per Share 1946-53	Recent Price	Number of Times Dividend Earned Each Year 1946-53: 1946	1947	1948	1949	1950	1951	1952	1953
BUILDING:												
U. S. Gypsum	35	$47.19	$30.99	138	3.3	2.5	2.5	1.5	1.6	1.7	1.5	1.7
Flintkote	20	17.77	11.94	30	2.2	4.1	1.9	1.7	1.9	1.3	1.4	1.8
Masonite	19	29.73	16.20	18	2.4	3.6	3.6	2.0	3.4	1.8	2.2	2.7
CHEMICALS:												
Union Carbide & Carbon	36	9.15	17.52	77	2.0	2.1	2.2	1.6	1.7	1.4	1.3	1.4
American Cyanamid	20	11.44	16.39	45	1.9	2.9	2.5	2.6	1.9	2.0	1.5	1.5
Heyden Chemical	25	5.55	.17	15	3.2	2.0	2.0	.9	2.3	1.9	.7	1.3
DRUGS:												
Pfizer (Chas.) & Co.	53	8.58	5.60	33	1.9	2.2	2.3	1.8	2.4	2.4	1.9	2.1
McKesson & Robbins	13	16.09	4.87	39	2.6	2.0	2.0	2.7	1.9	1.4	1.5	1.4
Bristol Myers	54	8.55	9.58	23	2.0	1.4	1.8	1.1	1.8	2.1	.9	1.4
FOODS:												
General Foods	32	14.51	8.14	63	1.8	1.5	2.1	2.1	1.8	1.4	1.8	1.6
Standard Brands	55	8.09	3.28	34	2.3	1.1	1.2	1.5	1.7	1.6	1.6	1.7
Hunt Foods	7	18.41	5.81	17	—	5.5	—	—	—	—	8.7	1.9
STEEL:												
U. S. Steel	14	21.83	8.74	46	1.8	2.3	2.4	2.3	2.1	2.0	1.5	2.1
Jones & Laughlin	13	23.71	37.11	23	1.8	3.5	6.0	3.0	4.3	2.6	1.6	2.4
Colorado Fuel & Iron	14	17.20	26.07	16	—	3.3	4.0	4.2	1.5	3.2	1.7	2.0
TIRE & RUBBER:												
Goodrich (B. F.)	15	36.69	12.35	90	3.9	3.2	3.0	2.5	3.7	3.2	2.8	3.0
General Tire	17	25.23	16.24	33	9.0	4.5	3.6	—	4.6	3.2	2.4	2.4
Seiberling Rubber	3	13.49	3.29	8	—	—	—	—	—	3.3	1.4	2.1
TOBACCO:												
Reynolds (R. J.) "B"	53	9.60	1.74	39	1.5	1.5	1.6	1.8	1.8	1.4	1.4	1.5
Philip Morris & Co.	26	15.45	6.91	40	1.7	1.1	1.4	2.0	2.0	2.2	1.5	1.3
General Cigar	45	6.60	2.89	18	1.5	1.7	1.6	1.4	1.1	1.6	2.0	2.0
TV-RADIO:												
Radio Corp. of Amer.	14	8.56	6.03	28	2.8	5.6	5.0	3.1	2.0	2.0	2.1	2.2
Motorola	12	17.25	4.63	33	2.4	2.8	3.2	8.1	2.8	4.1	2.4	2.4
Emerson Radio & Phono.	11	8.73	1.37	10	3.3	3.0	6.0	2.8	4.2	1.8	1.6	3.0

***—See text for explanation.**

Labor Unions As Big Business

By "VERITAS"

BIG BUSINESS operations of labor unions will come under close scrutiny as a result of a departmental order de-centralizing initial rulings on petitions to be declared tax-exempt. Local offices of the Revenue Service will apply tests written by Commissioner T. Coleman Andrews; if they're not satisfied that the applicant comes within the set pattern, the subject will be referred to Washington. Aimed at the incursions of labor organizations to the fields of banking, real estate operations, manufacturing and other lines of business while claiming a tax-exempt status, the new order also will serve to answer disputes brought by churches, libraries, community chests, chambers of commerce and others.

SWITCH by democrats in congress from active demands for immediate tax reduction to passive resistance to higher levies should smooth the path for Administration money bills, but the road may have many detours. Leading democrats say the Indo-China situation requires re-examination of appropriations in the field of national defense to meet dangers which weren't foreseen at the beginning of the year. This decision is a long step toward restoration of a real bipartisan foreign policy. President Eisenhower has reiterated his desire to have democrats join in evolving a policy. Majority Leader Knowland has extended the olive branch, and it has been tentatively accepted by Minority Leader Johnson.

REALISTIC, if somewhat uncomplimentary, view is that the house, which has the constitutional priority on money bills, is relegated in this instance. The new revenue act approved by the Representatives is regarded only as a working paper by the Senators. The house, under rules of procedure essential for the operation of so unwieldy a body, is limited in its debate and amendment rights; the senate can go on and on with amendments and re-writes. And in the light of developments since the house acted there are many changes which should be made in the earlier draft. The White House didn't get what it wanted from the house, but still is optimistic.

FIELD STUDIES being made by teams of the Department of Agriculture picked to survey the outlook for expanded world trade in American farm products are developing facts of a most optimistic nature, says Secretary Ezra T. Benson. According to him the dollar situation has shown improvement and international friendship seems sound. But Benson's men reported demands for higher standards; they're no longer in the position of having to take culls, don't want them.

WASHINGTON SEES:

It won't be possible to total the amounts of money put into generation of pressure for or against federal tax propositions before congress but it seems likely that the Revenue Act soon to emerge will prove to be the most lobbied in history.

The Lobbyist Registration Act was intended to cut down unnecessary expenditures by bringing out into the open the names of lobbyists, their principals, purposes sought to be accomplished, and financial outlay. It has served only the purpose of underscoring high pressure budgets, which instead of cutting down the spending has given opposing sides money marks to shoot at. It is costly, futile, doesn't fulfill its principal purpose —and it doesn't begin to cover that vast field of lobbying from whence no reports to congress come. No one has suggested that lobbying be banned; that would be an unconstitutional encroachment upon the right of petition. But in the long haul it is the general run of taxpayers, who aren't even consulted about the subject, who find the costs of lobbying reflected in their tax bills.

The American Medical Association, for example, is a huge spender to defeat nationalized medicine, a development which even the doctors don't see in the cards. The patients pay for this. The U. S. Chamber of Commerce presents its viewpoint to congress and the public through a large staff of professional lobbyists, economists, lawyers, and publicists and the businessman pays the toll. (Records of the USCG show a vast majority of its members to be "small business," by any yardstick.) Lobbying is the principal business of a dozen or more great labor union headquarters staffs in Washington. They're duplicating efforts toward common goals, and it all comes out of "take-home pay."

As We Go To Press

A problem that has plagued the Administration from its inception, the reluctance of President Eisenhower to maintain immediate personal contact with the country by clear-cut explanation of where he, and the nation, is heading has come up again in connection with foreign policy. The country has been bewildered and the republican party--congress in the main -- has been kept in consternation. Patience is wearing thin, gave way when Republican Senator Ralph E. Flanders joined the democratic party inspired insistence that: 1. A policy be formulated. 2. That policy be clearly stated.

Even loyal Administration Senator Styles E. Bridges has lost his patience, abandoned the effort to get agreement from the White House that the mounting cry of "do something" be answered by a lucid statement from the President himself. The democratic party with one foot figuratively in the voting booths is capitalizing on the uncertainties; Senator Wayne Morse, the Oregon Independent who was elected as a republican, has found another round of ammunition to fire against his old party.

The problem which calls for clarification was stated by Senator Flanders rather picturesquely: "We are rapidly putting on the role of Atlas supporting the globe. We become the 'weary Titan' carrying the sole responsibility." Speeches by the second-stringers do little service, wearied and worried republicans on Capitol Hill point out. They want the President to "go to the nation" to give the same kind of reassurance he gave not so many weeks ago that atomic warfare is not in the cards. (The situation in Indo-China quarrels with any inference that the speech might have given to the effect that communism has extended itself beyond the point of further immediate advances.)

The fall of Dien Bien Phu triggered outbursts of criticism here and abroad. The Secretary of State found it impossible to carry back from the Geneva conference all that had been expected of him. Whether justified or not, he is in many a senatorial private dog-house at this moment -- a circumstance which prompted the democratic national committee chairman, Stephen Mitchell, to predict John Foster Dulles will retire to private life in 1954. The forecast was taken up approvingly in many Washington conversations. It should be remembered that many competent men have given up in disgust in the past rather than continue to take critical fire from all sides. Basically the Dulles-Eisenhower foreign policy differs little from the Dulles-Truman foreign policy. The former President concedes that. But, he points out, the Administration in its unwillingness to admit that simple fact is permitting the public to be bemused with the notion that there is a new program -- as yet unclarified.

Foreign policy in more peaceful days was of relatively minor concern to rank-and-file citizens. But the diplomacy of dollar friendship has extended what the State Department does beyond the white tie-and-tails set and goes down to the factory bench, the corner store, and the "short form" federal income tax return. What seems to be needed today is the services of someone competent to write a speech for the President to deliver in which the answers to these basic questions may be found without a maze of statistics and platitudes on "friendship": How much longer will it be necessary for the American workingman to pay in taxes and in competitive disadvantage, for the job of putting foreign nations on their feet? Exactly what has this nation undertaken to do to give financial and military assistance to nations which wage warfare, or have it thrust upon them? There obviously is great difference in the notions respecting the latter which are entertained in Washington and which are held in Paris, for example.

The Federal Trade Commission is about to try a new approach to bring about compliance with the laws it administers. The big stick has been put in the corner for the time being; a program of voluntary compliance backed, if necessary by prompt and vigorous

enforcement, is to be substituted. Many businessmen have rebelled at FTC practices in the past. Some have been goaded into lengthy and costly resistance by the whiplash of these government agents. Trade practice agreements made by an industry in cooperation with FTC (they're initiated by the industry) have the force and effect of law. But there has been disposition on the part of some industry members to regard them only as declarations of ethical intent. So the commission is planning spot checks to isolate offenders. Following will be a campaign of education, directed at the transgressors. If that procedure doesn't bring about the sought-after improvements, the big stick comes out of the corner and is put to use.

Just as circumstances combined to permit President Roosevelt to change the political picture of the Supreme Court bench after he had been denied by congress the power to do it by the process of "packing," President Eisenhower may find himself called upon to make important personnel changes. Word has leaked to White House toppers that three justices will resign when the current term ends. With Chief Justice Earl Warren and Associate Justice Harold Burton as republican members today, three more spots would give the GOP a majority -- assuming that Ike would make it a straight-party matter. The field of suitable republican nominees already is being explored. Ordinarily, the Attorney General would top the register of "probables." It's not considered likely that his name would be submitted at this time to an intensely partisan senate which actually has more democrats than republicans, plus Independent Wayne Morse who usually votes democrat.

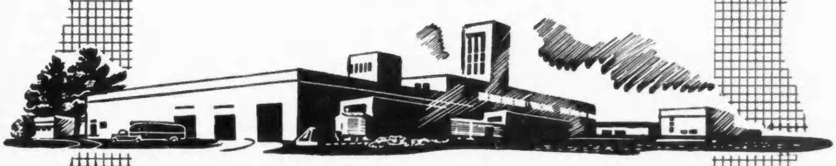
If the vacancies come in the summer months while congress is not in session, President Eisenhower might fill the spots by recess appointments -- provided he can persuade capable lawyers to take the jobs against the possibility they might be rejected in the final test. But the court would be in session two or three months before the new congress convenes and it is unthinkable that a nine-man tribunal would do business with only six judges. The November election could change the picture. Today it's considered a toss-up whether the democrats might not even enlarge their numerical strength. Should that happen the Eisenhower selections would be in for hard sledding and Brownell's chances would very likely be even less bright than they are today.

Unless state insurance commissioners initiate reforms, congress is almost certain to make a drastic change in health and accident insurance policies. The fly-by-night operators can be kept rather well under thumb. The current problems have to do with the cancellation feature of contracts written by many of the larger, highly regarded, insurance companies. The house interstate commerce committee has been grilling state insurance commissioners, finds most of them not in sympathy with the practice which Rep. Charles A. Wolverton, committee chairman pointed out, is tantamount to a health policy provision: "Unless a person's health is maintained or if he incurs illness, this policy will be cancelled." The committee made a sampling; it inspected 300 policies which were the basis of various types of complaint, found almost one-half of them carried proviso that the company could tear up the policy if it had to pay benefits once.

Many private companies write health, accident and hospital insurance with reluctance. They'd rather not have the business, handle it only to meet the demands of clients who purchase other lines also. The cancellation feature is a protection against "chronics," whose carrying cost raises the expense of doing business and must be reflected in across-the-board premiums eventually, if these persons cannot be dropped. Action by the states or by congress could have the effect of concentrating the health insurance business in a limited number of specialty companies or to industrial or business groups. In most contracts, no payment is made for a listed class of illnesses until the policy has been in effect for a stated period of time. The result, as to that list, is payment without any coverage, and congress is looking into that aspect of the problem too.

The Washington scene is one of unbelievable confusion, running from department to department. Never in the history of man have there been so many political corpses in the making. Rumors are making the rounds that there will be many resignations, some in high posts, come the elections next November. On top of this, there is much uncertainty regarding the tenure of office-holders in the lower echelons as well.

What To Do About—



PROBLEM STOCKS

By CHARLES D. HUNT

Sad to relate but true, most investment portfolios—even those of the experts—may contain one or more stocks that are a disappointment to their holders. No matter how carefully an investment may be made, unforeseen circumstances can and do play unexpected roles, to the discomfiture of the investor. When this applies to so-called sound stocks, the distress naturally is magnified as such issues normally form an important part of investment portfolios.

The situation is fairly well exemplified in the present market which finds quite a number of stocks of hitherto excellent standing languishing far behind the market leaders. Some of them have been in trouble for a year or more, others more recently. Naturally, they are of considerable concern to stockholders, especially since dividend prospects may be dimmed, an outlook which, in addition to accruing market loss, is bound to cause apprehension.

To this list of "problem" stocks may be added another group which is disappointing for another reason; that is to say, there is nothing wrong with earnings or dividend prospects but the stock action remains unimpressive, regardless. Although in these instances, investors are not troubled by material losses, disappointment may be almost as keen as in the case of stocks which are in real jeopardy.

Whatever the cause for disappointment may be, investors are posed with a specific problem of whether to hold or sell. It need not be said that to find a solution in such circumstances may be quite difficult. One may be frank to admit that it is less complicated to advise on a new commitment than one already made, especially when losses are involved.

In this article, we have undertaken to present the essential facts concerning ten prominent stocks which, for one reason or another, have been giving their holders some concern. On the basis of these facts, we have endeavored to give practical advice.

AIR REDUCTION: Because shares of Air Reduction have pursued a fairly consistent downtrend from their 1937 peak of 80¼, the company is widely believed among investors to have been confronted by operating problems. Actually, the decision of investment managers to place more modest appraisals on earning power has represented an investment problem rather than a corporate development. The company has experienced steady growth in sales and in diversification of products. Although earnings have not expanded commensurately with sales volume, that pattern scarcely is peculiar to this company.

The tendency of the stock to fluctuate within much narrower limits than formerly may be traced to a growing appreciation of the fact that the glamor of the magic word "chemical" has worn off in the marketplace. Investors have seen that as such products as industrial gases become abundant and common in their application to production they are viewed more realistically. Experience has shown that abundance of supplies has brought keen competition and narrower profit margins. Investors have taken this factor into consideration in appraisals.

Accordingly, instead of emphasizing growth potentials and evaluating the stock at 30 to 40 times earnings, as in the past, investors have come to look more at current return and book value as guides to popularity. On this basis, Air Reduction compares favorably with stocks of comparable grade. Although earnings may be handicapped for a time by high amortization charges, cash flow should be ample to assure adequate dividend coverage. On the indicated $1.40 annual rate, the return has appeal for investors seeking security of principal rather than prospect of substantial price appreciation. Modest progress under conditions of high industrial activity seems likely. The stock should be held.

AMERICAN VISCOSE: A combination of nu-

merous adversities, along with the general complaint of overproduction and keen competition, seems to have presented this company with the problem of declining earnings. A difficulty which bids fair to clear up in the not too distant future is that of excessive inventories of raw materials and finished fabrics in the textile industry. At long last, producers have taken firm steps to curtail output sufficiently to adjust supply to demand. This step is necessary to bolster the industry's price structure so as to provide a basis for profitable operations. Some factors have been running pretty close to the break-even point.

American Viscose has joined in restricting output by cutting back production in its Marcus Hook, Pa., plant and in reducing employment elsewhere. Lower production tends to raise unit costs and impair margins. Efforts are being directed to improve labor efficiency and to concentrate production on fewer lines.

One of the problems that may not be so easily solved is the competition designed to introduce new fibers. Industry claims in some cases have proved exaggerated under thorough tests. Much publicity over several kinds of fibers seems to have confused the public to such an extent that new fabrics have not been generally accepted. American Viscose has encountered difficulties in perfecting some of its new products. Investments in Chemstrand as well as in Ketchikan Pulp may be limited over the near term.

Assuming that a turn for the better may develop in consumer demand later in the year, the company may experience a recovery in earnings sufficient to encourage hope of maintaining the $2 dividend. Much of the severity of the readjustment probably has been discounted marketwise. This stock is one of the better quality issues in its industry and deserves retention for longer term growth.

CELANESE CORP. OF AMERICA: In general the observations on American Viscose are applicable to this company. Like others in synthetic textiles, the company has experienced a problem in readjusting manufacturing operations to more nearly normal standards. Recurrent booms that developed during the war and in the Korean incident stimulated consumption of textiles far beyond normal proportions. An upsurge of popularity in nylon fabrics spurred interest in all kinds of new fibers. Scarcities accumulated during the war contributed to the high rate of production by Celanese of synthetic yarn and fabrics after the war.

In line with the extraordinary earning power developed in the postwar period, Celanese shares advanced sharply to the peak of 1951. The abrupt retreat gave recognition to the slump in consumer demand. Dwindling public interest could be explained by the excessive buildup of inventories of wearing apparel in the home after the Korean war scare in 1950 and to dissatisfaction in some instances with new materials.

Celanese engaged in an extensive program of integration and expansion of facilities—all of which added to the management's problems when earnings began to recede. The move was designed in part to assure adequate sources of raw materials and to broaden operations through development of chemicals that were closely related to synthetic fibers. This phase of development has been substantially completed.

Deterioration in earnings resulting from reduced operating rates and a consequent rise in unit costs at a time when prices were under pressure from the trade naturally had an adverse effect on investment appraisals of the stock. With the dividend apparently in jeopardy, the stock dipped to the lowest level since immediately after the war when the outlook seemed obscure. For longer term holding, the shares may be held on a speculative basis in view of the fact that the stock has largely discounted the present difficulties of the company.

CHRYSLER CORP.: The major problem being encountered by the third member of the "big three" is not so difficult to spot as is the reason for it. As may be readily understood, the difficulty sensed by investors is the extraordinary decline in sales. Industry observers attribute the loss in competitive standing to the management's failure to discern style changes that have caught the public's fancy. Whereas Chrysler customarily has accounted for about 20 per cent of total passenger car sales, early tabulations on production and registrations suggest that the company's proportion this year may sag to as low as 12 to 15 per cent. There seems little doubt but that 1954 business is destined to drop sharply from 1953 volume.

An indication of what may be expected in the way of earnings was the report for the March quarter showing net profit equal to 88 cents a share, compared with $2.81 a share in the same period last year. Sales fell almost 43 per cent to $529 million from $924 million in the same quarter of 1953.

As evidence of the management's determination to accept the challenge a decision has been made to enlarge production of the company's own components. In this direction an agreement has been reached to purchase the body manufacturing facilities of Briggs Manufacturing Company, which formerly produced a large proportion of Chrysler's requirements. Additional moves are contemplated. The extensive program involving large expenditures may necessitate a more conservative dividend policy. Whether or not the stock has fully taken into account a probable contraction in 1954 earnings and a downward revision in payments to stockholders is uncertain. A cautious attitude would appear logical for the time being but long-term holders might find it suitable to retain the stock through any further market reaction that may develop.

MONTGOMERY WARD & CO.: Whether or not this second largest mail order house has experienced a problem depends somewhat upon one's viewpoint. There are those who contend that a high degree of conservatism characterizing merchandising operations, especially in connection with expansion of sales outlets, may prove a favorable factor in the long run. Nevertheless, from the average investor's appraisal as measured in the stock market, the public has indicated that its preferences have been directed elsewhere. Marketwise the stock has not fared as well as its major competitor—and that is the reason investment managers feel there must be a problem.

Lack of enthusiasm for the stock traces to the immediate postwar period when a proposed expansion was deferred. Management indicated that it would retain cash resources until costs of construction dropped. Experience had shown that major wars almost invariably were followed by severe economic depressions. The Washington Administration

successfully warded off adverse effects of unemployment, and in this move was aided by the public's appetite for goods which had been scarce during the war. Savings accounts were drawn upon and installment loans were utilized to finance large purchases of consumer goods. As a result, the expected recession failed to materialize.

Construction costs have continued to rise. Now the projected expansion that could have been undertaken in 1947 and 1948 at what then seemed high costs (and which now would be deemed trifling in comparison with today's figures) may be out of reach. The company's principal competitor, Sears, Roebuck & Co., has steadily boosted its sales, while Montgomery Ward's volume has been shrinking. From the standpoint of equity values the shares of the latter may be regarded as reasonably appraised, but the attraction of growth seems limited. A change in management, however, could be the signal for greater interest in the shares. The stock should be retained by present holders.

NATIONAL DISTILLERS: Although the entire distilling industry has been handicapped by high excise levies on hard liquor and by an evident failure of per capita consumption to keep pace with rising consumer income, National Distillers has had other problems with which to contend. Management's decision to diversify activities into production of chemicals along lines identified with distilling appears to have imposed burdens on earning power. Major adjustments were necessitated by a move to participate in construction of a plant designed to produce ethyl alcohol, ethyl chloride and polyethylene. Whether or not this development has enhanced earnings prospects seems uncertain, for competition may become quite keen in chemicals.

Profit margins have been adversely affected on liquor by excessive inventories of aged whiskies and by high taxes which encourage consumers to turn to illicit substitutes. Industry observers estimate that as much as 25 to 35 per cent of whisky consumed currently originates with bootleggers. This is a problem that may prove difficult to combat.

National Distillers is one of the majors in its industry and should be able to maintain its competitive position. More satisfactory results from the diversification program seem destined to materialize in the next year or two. Meantime, the current moderate dividend is covered by so narrow a margin as to cast doubt on its stability. Large inventories of aged whiskies are more valuable than most finished goods. The company appears to be taking adequate measures to solve its problems to the best of its ability and the stock seems reasonably appraised on basis of earnings and long-term potentialities. While new investment at this time may seem inadvisable, present holdings need not be disturbed at existing low levels.

PARKE, DAVIS & CO.: Along with several other producers of ethical drugs, this company felt the adverse effects of overproduction of "wonder drugs" and a mild reaction against overemphasis on medicinal products. As prices declined and profit margins narrowed, earnings slipped back. Moreover, the investing public began to evaluate stocks in this group on a more realistic basis.

An unfortunate experience with its principal antibiotic, chloromycetin, posed an additional problem for Parke, Davis. Adverse publicity resulted in a sharp sales decline a couple of years ago. Since then demand for the product gradually has improved. World sales of the product have topped those of any other product introduced to the medical profession by the company. The adjustments involved had a depressing effect on earnings, but a turn for the better appears to have been reached.

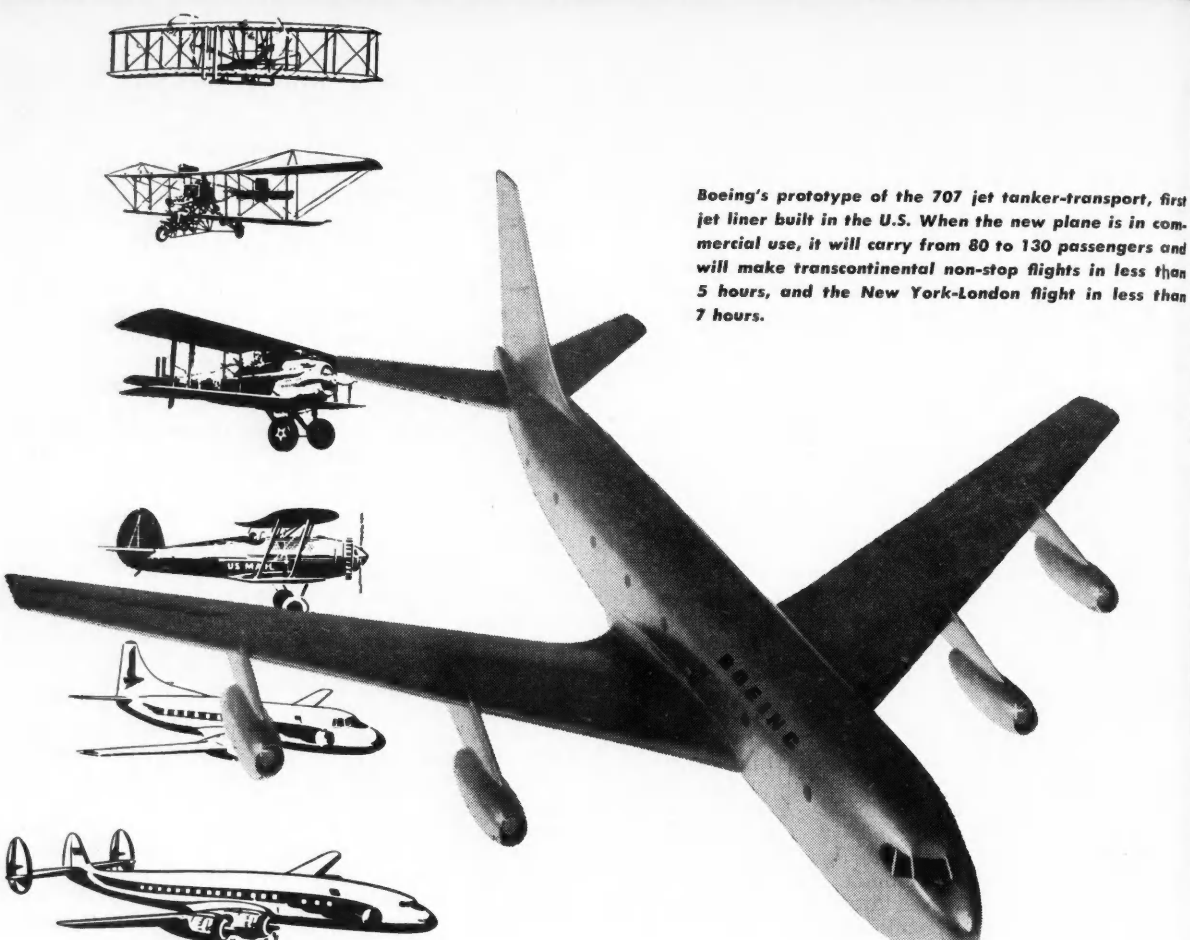
Additional new products are being readied for the market. Prospects (*Please turn to page* 304)

Comparative Earnings-Dividend Record of 10 "Problem" Stocks

	Air Reduction	Amer. Viscose	Celanese Corp.	Chrysler Corp.	Montgomery Ward & Co.	National Distillers	Parke, Davis & Co.	Penna. Railroad	Pullman Inc.	Underwood Corp.
1946 (a)	$ 1.66	$ 2.60	$ .94	$ 3.09	$ 6.29	$ 1.67	$ 2.73	$(d).65	$ .64	$ 2.66
(b)	1.75	1.00	.90	1.50	2.00	1.41	1.40	1.50	3.00	2.50
1947 (a)	2.08	4.48	3.83	3.86	8.86	4.57	2.23	.55	2.38	8.31
(b)	1.00	1.00	1.30	2.87	3.00	2.00	1.60	.50	3.00	4.00
1948 (a)	2.36	6.82	6.61	10.25	10.28	3.37	1.98	2.61	3.18	8.19
(b)	1.00	2.25	2.20	4.00	3.00	2.00	1.40	1.00	2.00	4.00
1949 (a)	2.26	4.66	3.19	15.19	7.13	3.03	2.54	.95	2.42	5.26
(b)	1.00	2.00	2.40	5.25	3.00	2.00	1.40	.75	2.00	3.50
1950 (a)	3.15	7.83	6.39	14.69	11.19	3.45	3.65	2.92	4.50	6.71
(b)	1.00	2.50	2.55	9.75	3.00	2.00	1.75	1.00	4.00	4.00
1951 (a)	2.69	5.37	3.56	8.27	8.14	2.87	3.89	2.03	4.69	6.77
(b)	1.40	2.50	3.00	7.50	4.00	2.00	1.90	1.00	3.00	4.00
1952 (a)	2.25	4.88	.77	9.04	7.41	1.13	3.32	2.81	4.51	5.00
(b)	1.40	2.50	2.25	6.00	3.00	1.75	1.90	1.00	3.00	4.00
1953 (a)	2.06	2.74	1.01	8.59	6.12	1.18	1.91	2.81	5.02	1.13
(b)	1.40	2.00	1.25	6.00	3.00	1.00	1.60	1.50	3.00	2.25
PRICE RANGE: 1946 to date										
High	59¾	78	58¼	98	104¼	37¼	63⅛	47½	69⅜	80¾
Low	18⅝	20½	16¼	37⅝	47¼	16⅞	23⅝	13¾	30⅛	26
RECENT PRICE:	23	32	17	59	60	17	32	17	51	28
DIVIDEND YIELD:	6.0%	6.2%	5.8%[1]	10.1%	5.0%	5.8%	5.0%	8.8%	5.8%	8.0%

(a)—Earnings per share.
(b)—Dividend per share.

[1]—Based on indicated 1954 rate.
(d)—Deficit.



Boeing's prototype of the 707 jet tanker-transport, first jet liner built in the U.S. When the new plane is in commercial use, it will carry from 80 to 130 passengers and will make transcontinental non-stop flights in less than 5 hours, and the New York-London flight in less than 7 hours.

1954 Outlook for AIRCRAFT—AIRLINE COMPANIES

By H. F. TRAVIS

No. 9 of Our Special Studies of Major Industries

The aircraft industry appears to be assured of continued high levels of production and earnings for two or three years, and possibly longer. The long range procurement program which has become the national policy should prevent sharp reductions in production and earnings such as have marked the industry during the 1930s, and again in the period following World War II.

But this forecast must be qualified by the fact that Government policy is usually affected quickly by changes in the international outlook. The major airframe and engine companies derive at least 85 per cent and in some cases, nearly all of their income from the armed forces. Even allowing for expectations of a long period of international tension, it cannot be said that the aviation industry has yet achieved complete security. Its leaders will have to be vigilant to guard against new economy waves in the Government. For the near term, certainly through 1956, the outlook appears favorable but it would be a mistake to assume that the excellent earnings levels reached by some companies in the first quarter of this year—in most cases well above the same period of 1953—can be multiplied by four to get the earnings potential over the next decade.

For the longer term, of course, commercial volume is assuming steadily increasing importance. But, as in the past, only a few companies will participate in this business in any important way, and the volume will remain far below military business.

Military production is currently running at its scheduled peak after building up since 1950. The 1954-1955 budget of the Administration, as well as the 1953-1954 budget, has shown that while other services were being subjected to economies, Air Force spending is being maintained and increased because of the importance attached to air power. This narrower defense- (*Please turn to page 284*)

Statistical Data and Comments on Leading Aircraft and Airline Companies

AIRCRAFT MANUFACTURERS

	Earnings Per Share 1951	Earnings Per Share 1952	Earnings Per Share 1953	Dividends Per Share 1951	Dividends Per Share 1952	Dividends Per Share 1953	Recent Price	Div. Yield	Price Range 1953-1954
Beech Aircraft	$ 1.23	$ 2.82	(d) $ 3.87	$ .80	$ 1.05	$ .75[1]	15	.....	16¾- 9
Bell Aircraft	2.19	3.46	3.92	1.12½	1.50	2.00	31	6.4%	32⅞-17¾
Boeing Airplane*	2.20	4.33	6.25	1.50	1.50[3]	2.00[2]	39	5.1	42⅞-18¼
Cessna Aircraft	1.14	1.59	1.54	.40	.50	.50	9	5.5	9⅞- 6¼
Curtiss-Wright	.72	1.02	1.36	1.00	.60	.60	9½	6.3	10½- 6⅝
Douglas Aircraft*	5.76	8.99	15.46	1.75	1.87½	2.50[4]	60	4.1	66¾-30
Fairchild Cam. & Inst.	.69	1.66	1.93	.25	.25	.25[3]	25	1.0	27¾-15½
Fairchild Eng. & Air.	.96	1.36	1.74	.40	.60	.80	12½	6.4	13¾- 6¾
Grumman Air. Eng.	2.73	2.67	3.56	2.00	2.00	2.00	27	7.4	28¼-19⅜
Lockheed Aircraft	2.32	3.61	5.79	1.10	1.20	1.62[3]	33	4.9	37 -20¼
Martin (Glenn L.)	(d)19.55	3.03	7.06	.....	.....	.....	21	.....	25⅝-12¼
McDonnell Aircraft	4.83	4.49	6.17	1.00	1.00	1.00[2]	22	4.5	24¾-16¼
North Amer. Aviation	1.87	2.28	3.72	1.25	1.25	2.00[2]	28	7.1	29⅜-15⅜
Northrop Aircraft	6.02	3.48	4.75	.50	1.00[3]	[2]1.00[3]	25½	3.9	26 -11¼
Piper Aircraft	.58	.41	.42	.....	.....	.....	2½	.....	3¼- 1½
Republic Aviation	2.41	6.65	6.83	1.00	1.25[3]	2.00[2]	30	6.6	31⅞-17¾
Ryan Aeronautical	1.02	2.23	3.80	.40	.50	.50	19½	2.5	19⅞-12
Solar Aircraft	2.32	2.15	4.25	.80	1.00	[2]1.00[3]	17	5.9	21 -13¼
United Aircraft	4.06	5.18	6.23	2.00[3]	2.00	3.00[5]	60	5.0	61⅛-31⅞

(d)—Deficit.
*—New stock.
[1]—No div. action Oct. 23, 1953.
[2]—Indicated 1954 div.
[3]—Plus stock.
[4]—Indicated 1954 rate, plus extras.

NOTE: (a) April 29, 1954 merger ratified combining Consolidated Vultee Aircraft into General Dynamics Corp. As pro-forma data is unavailable, the new company is not listed in the table.
(b) "Chance Vought Aircraft," spin-off from United Aircraft, is now listed on N. Y. Stock Exchange, but no earnings data is available.

AIRLINE COMPANIES

	Earnings Per Share 1951	Earnings Per Share 1952	Earnings Per Share 1953	Dividends Per Share 1951	Dividends Per Share 1952	Dividends Per Share 1953	Recent Price	Div. Yield	Price Range 1953-1954
American Airlines	$ 1.42	$ 1.72	$ 1.86	$ .50	$ .50	$ .50	11¾	4.2%	15⅜-11⅜
Braniff Airways	1.10	1.02	.01	.50	.....	.....	7½	.....	11⅛- 5⅞
Capital Airlines	2.26	1.80	2.10				9		13½- 8½
Eastern Air Lines	3.02	3.43	3.30	.50	.50	.50	23	21.	28⅜-20⅝
National Airlines	2.59	2.05	3.99	.50	.50	.60[1]	13	4.6	15½-11⅛
Northwest Airlines	1.64	1.64	1.54	.....		.....	9	.....	14½- 7½
Pan Amer. World Airways	1.07	1.09	1.77	.50	.50	.65	11½	5.6	11¾- 8¼
Trans World Airlines	2.87	2.30	1.52			[2]	14½	.....	20⅛-12¾
United Air Lines	3.58	4.03	3.28	1.50	1.50	1.50	22	6.9	32¼-21⅛
Western Air Lines	2.53	1.72	1.66	.50	.60	.60	9	6.6	12⅜- 8⅜

[1]—Indicated 1954 dividend.
[2]—Paid 10% in stock.

Note: Chicago & Southern Air Lines absorbed by Delta Air Lines May 1, 1953. (Delta stock unlisted.)

Aircraft Manufacturers

Beech Aircraft: Producer of light military trainers and executive-type planes. Defense orders small. Earnings up on lower volume in first quarter. (N)

Bell Aircraft: Rising output of guided missiles and electronics aided in doubling share earnings in first quarter. Backlog $450 million. (H)

Boeing Aircraft: Backlog $2.3 billion, up $700 million. Earnings more than doubled in first quarter. Stock split ratified and dividend increased. Largest maker of heavy bombers. (H)

Cessna: Producer of personal planes, military trainers; and helicopters. Defense order prospects not bright. (N)

Curtiss-Wright: Large engine and propeller producer, with backlog of $825 million. Earnings up in first quarter on rise in sales. (H)

Douglas Aircraft: Earnings doubled in first quarter. Big producer of all types of defense and commercial planes. Backlog $2 billion. Stock split and dividend increased. (H)

Fairchild Camera and Instrument: Important producer of military cameras and components. Sales and earnings up in first quarter (H)

Fairchild Engine & Airplane: Steady progress recorded by this producer of planes, jet missile engines, midget submarines, etc. Backlog $321 million. (H)

Grumman Aircraft Eng.: This premier Navy contractor has backlog of $250 million plus letter of intent for $250 million. First quarter net $1.18 a share. (H)

Lockheed Aircraft: Sales up 36 per cent, earnings up 37.3 per cent in first quarter. Big producer of military and commercial planes. Backlog $1.3 billion. (H)

Martin (Glenn L.): Improvement in this plane and missile producer continues. Sales and earnings up this year. Backlog $550 million. (N)

McDonnell Aircraft: Producer of jet fighters for Navy. Has good backlog. (H)

North American Aviation: Big producer of Air Force Sabrejets. Backlog $1.1 billion, plus uncommitted orders. Earnings rose to $1.77 a share in first quarter. (H)

Northrop Aircraft: Producer of Scorpion F-89 fighter. Backlog $411 million, off $78 million since Oct. 31. Sales and earnings lower, in Jan. 31 quarter. (N)

Piper Aircraft: Beginning deliveries of new executive type plane. Earnings slightly higher in first quarter. (N)

Republic Aviation: Backlog $979 million. Earnings temporarily lower in first quarter owing to delay in acceptance of new jet fighter bombers. (H)

Ryan Aircraft: Maker of jet engine components and airframe assemblies. Showed good gain in earnings last year. Backlog reduction not too significant. (N)

Solar Aircraft: Maker of jet components. Earnings off on reduced sales in first quarter. New orders increased backlog $6 million to $63 million. (N)

United Aircraft: Big maker of engines and propellrs. Backlog $1.1 billion, not including Chance Vought orders of $340 million. Later unit, to be "spun off" this year, has good prospects. (H)

Airline Companies

American Airlines: Common stock ranks as good grade speculative growth issue. Modest dividend should be maintained. (H)

Braniff Airways: Dependence on mail pay makes this issue unattractive in view of Post Office Department's drive for lower mail rates. (N)

Capital Airlines: At a disadvantage because of short-haul traffic and competition. Merger possibilities enhance speculative risk. (H)

Eastern Air Lines: Integrated and strategic system has demonstrated its earning power. Modest dividend secure and shares attractive over long-term. (H)

National Airlines: Aggressive low-cost operator. Earnings, even without non-recurring profits, ample for dividend needs. (H)

Northwest Airlines: Light passenger density and cut in mail rates poses problems. Omitted preferred dividend payment last February. Common stock highly speculative. (N)

Pan American World Airways: Government anti-trust suit; uncertainty of future mail rates materially offset by improved operating economies. (H)

Trans World Airlines: Rapid increase in new equipment facilitated by financing of $40 million. Long term outlook promising. (H)

United Air Lines: Lower 1954 net indicated, but continued good earnings and strong position assures dividend maintenance. (H)

Western Air Lines: Increasing competition and higher costs likely to cut 1954 net. Dividend seems immediately secure, but stock must be regarded as speculative. (N)

RATING—(H)—Hold. (N)—Neutral.

Comprehensive Statistics Comparing the Position of

Figures are in million dollars, except where otherwise stated.	AIRCRAFTS: Boeing Airplane	Douglas Aircraft	Lockheed Aircraft	North American Aviation	United Aircraft	AIRLINES: American Airlines
CAPITALIZATION:						
Long Term Debt (Stated Value)	....	....	....	....	....	$ 30.0
Preferred Stocks (Stated Value)	....	....	....	....	$ 23.8	$ 40.0
Number of Common Shares Outstanding (000)	3,247[1]	2,405[1]	2,670	3,435	3,207	6,471
TOTAL CAPITALIZATION	$ 35.2	$ 30.0	$ 2.670	$ 3.4	$ 39.8	$ 76.4
INCOME ACCOUNT: For Fiscal Year Ended	12/31/53	11/30/53	12/31/53	9/30/53	12/31/53	12/31/53
Net Sales	$918.2	$874.5	$820.4	$634.6	$817.5	$208.3
Deprec., Depletion, Amort., etc.	$ 2.7	$ 3.9	$ 3.8	$ 4.6	$ 14.6	$ 18.6
Income Taxes	$ 38.5	$ 42.9	$ 32.8	$ 27.3	$ 48.5	$ 14.1
Interest Charges, etc.	....	$ 1.5	$ 2.0	$ 1.8	....	
Balance for Common	$ 20.3	$ 18.5	$ 15.4	$ 12.7	$ 19.9	$ 13.4
Operating Margin	6.2%	7.1%	5.8%	6.3%	8.4%	15.2%
Net Profit Margin	2.2%	2.1%	1.8%	2.0%	2.5%	7.3%
Percent Earned on Invested Capital	24.7%	18.9%	21.1%	19.6%	13.8%	14.4%
Earned Per Common Share*	$ 6.25[1]	$ 7.73[1]	$ 5.79	$ 3.72	$ 6.23	$ 1.86
BALANCE SHEET: Fiscal Year Ended	12/31/53	11/30/53	12/31/53	9/30/53	12/31/53	12/31/53
Cash and Marketable Securities	$ 20.7	$ 55.6	$ 44.0	$ 42.6	$ 54.1	$ 54.5
Inventories, Net	$176.7[2]	$149.3[2]	$ 96.2	$ 89.7	$113.2	$ 1.8
Receivables, Net	$ 11.6	$ 26.4	$ 77.7	$ 61.2	$ 52.4	$ 28.2
Current Assets	$209.1	$231.4	$221.0	$193.6	$219.8	$ 85.2
Current Liabilities	$149.5	$174.9	$181.5	$148.1	$140.0	$ 51.0
Working Capital	$ 59.6	$ 56.5	$ 39.5	$ 45.5	$ 79.8	$ 34.2
Fixed Assets, Net	$ 21.5	$ 32.3	$ 28.1	$ 16.7	$ 70.7	$ 12.8
Total Assets	$231.6	$273.5	$260.3	$213.1	$297.7	$175.1
Cash Assets Per Share	$ 6.37[1]	$ 23.15[1]	$ 16.48	$ 12.41	$ 16.89	$ 8.42
Current Ratio (C. A. to C. L.)	1.4	1.3	1.2	1.3	1.5	1.6
Inventories as Percent of Sales	....	....	11.7%	14.1%	13.8%	....
Inventories as Percent of Current Assets	....	....	43.5%	46.3%	51.5%	....
Total Surplus	$ 46.9	$ 68.5	$ 70.4	$ 61.6	$113.0	$ 46.6

*—Data on dividend, current price of stock and yields in supplementary table on preceding page.
1—Adjusted for 2 for 1 stock split.
2—Includes accumulated charges on deliveries, expend. & fees, materials and supplies, etc.
3—Includes profit on sale of property.

spending base enormously strengthens the position of air craft stocks.

The Administration has said time and again that it believes that the only safe policy is to be ready to administer a massive air attack to any aggressor. Such readiness on our part will serve as a deterrent to Russia. But aircraft must be ready to play many other roles aside from the long range bombing missions. Intercepting fighter planes must be ready in large quantities, along with anti-aircraft guided missiles, Navy planes for carriers and coastal anti-submarine work, etc.

Earnings of the military aircraft producers rose sharply last year, despite the restricting effect of the excess profits tax. Sales of 12 major airframe companies totaled $5.1 billion last year, against $8.5 billion for the industry as a whole. This was an increase of 37½ per cent compared with 1952, and 268 per cent over the 1950 volume. Net profit of these companies totaled $116.6 million, after payment of $200.5 million in Federal income taxes. This compares with net profit of $81.7 million in 1952, after Federal income taxes of $138.8.

Renegotiation Not a Real Threat

Despite this increase in earnings, the ratio of net profit to sales of these 12 airframe producers was only 2.3 per cent, or less than half the national average of 5.3 per cent for all manufacturing industries. Big volume compared with former years, however, translated that 2.3 per cent ratio into a good increase in earnings on aircraft manufacturing company stocks.

In the first quarter of this year, the ending of the excess profits tax and the improved manufacturing efficiency of the industry has boosted earnings by a large margin over 1953. But the ratio of net profit to sales is still only somewhere between 3.2 and 3.5 per cent for the average airframe producer. Since this is still well below the average for all industry, the producers may fare well in escaping any important attempt of the Government to scale down profit margins through renegotiation and repricing. In view of the expressed policy of the renegotiators to consider only pre-tax profits, and the moderate profit margin realized on the present business, the industry feels that it would be inequitable for the government to reduce materially its current rate of profit.

Furthermore, this Administration takes a friendly attitude towards business—particularly the aviation industry—and it can be expected to be sympathetic to its needs for retained earnings, to finance future investment in plants and in research and development.

Aside for straightforward renegotiotion of contracts, the possibility exists that the Government procurement agencies may take a restrictive attitude towards prices. By repricing airframe contracts

Leading Aircraft and Airline Companies

AIRLINES (Continued)				
Eastern Air Lines	National Airlines	Pan-Amer. World Airways	Trans World Airlines	United Air Lines
$ 27.0	$ 10.9	$ 43.1	$ 26.1	$ 18.8
....	....	....	....	$ 21.5
2,478	1,010	6,096	3,333	2,463
$ 30.1	$ 11.9	$ 49.2	$ 42.8	$ 64.9
12/31/53	6/30/53	12/31/53	12/31/53	12/31/53
$144.4	$ 32.9	$217.9	$187.2	$172.9
$ 17.9	$ 1.9	$ 18.3	$ 23.4	$ 17.3
$ 12.0	$ 2.3	$ 9.1	$ 4.8	$ 10.0
$ 1.3	....	$ 1.7	$ 1.7	$ .9
$ 7.9	$ 4.0[3]	$ 10.8	$ 5.0	$ 8.1
12.0%	12.0%	7.6%	5.7%	11.0%
5.4%	12.2%[3]	5.0%	2.7%	5.2%
14.9%	28.8%[3]	10.3%	8.9%	10.2%
$ 3.20	$ 3.99	$ 1.77	$ 1.52	$ 3.28
12/31/53	6/30/53	12/31/53	12/31/53	12/31/53
$ 46.4	$ 11.3	$ 32.6	$ 25.4	$ 28.8
$ .8	$ .4	$ 5.2	$ 2.0	$ 2.2
$ 12.3	$ 2.7	$ 37.0	$ 13.6	$ 20.9
$ 59.6	$ 14.6	$ 75.4	$ 41.2	$ 52.0
$ 45.2	$ 8.2	$ 61.1	$ 43.0	$ 45.8
$ 14.4	$ 6.4	$ 14.3	$(d)1.8	$ 6.2
$ 67.3	$ 15.8	$102.2	$ 78.1	$ 99.6
$128.7	$ 33.4	$217.8	$130.1	$155.8
$ 18.74	$ 11.24	$ 5.35	$ 7.63	$ 11.70
1.3	1.7	1.2	1.0	1.1
....	....	....	....	....
....	....	....	....	....
$ 50.0	$ 12.9	$ 97.8	$ 40.1	$ 42.2

downward, the Government buyers could cut profits before renegotiation. But here, too, it appears that only moderate changes in prices will be effected, as the industry learns to cut its costs. Many contracts are on an incentive or "target price" basis, designed to save the Government money, and the procurement agencies will not want to destroy or weaken such incentives. So, on balance, the question of repricing and renegotiation does not loom as an important barrier to substantial gains in earnings this year. Any Government action in this sphere will be moderate.

Prospects for 1954

The industry's dollar volume this year should be fully equal to the $8.5 billion in sales realized in 1953. There will be a slight decline in the number of units, but this will be offset by increased size of the planes being built. A decrease in the number of trainers and other smaller planes will be offset fully by the gain in output of heavy bombers, etc. Next year, sales should total $7.5 billion if the present program is maintained, down $1 billion, but profits should still be not far from present levels.

Beginning in 1955, production will begin to dip as the Air Force approaches its goal of 137 groups—unless there is a new crisis, with active fighting and heavy loss of planes. As against a peak output of 12,000 units at present, production will drop to a little more than one half of that total by mid-1957, according to the Aircraft industries Association. This estimate places Government aircraft procurement at $6 billion to $6.5 billion a year, when the lowest point is reached in late 1956 or 1957 which is only 20 to 25 per cent below present production. This is the minimum sum, Air Force leaders believe, required to sustain the Air Force on a modern efficient basis, replacing about 20 per cent of the equipment each year because of rapid obsolescence and attrition. But if unemployment remains at or above present levels, the administration may be reluctant to cut defense spending even as little as 20 per cent by 1956.

Hence, in a sense, the aircraft industry can be regarded as reasonably recession-resistant. It is not dependent on general business activity for prosperity, and can expect heavy "priming" spending in any new recession.

As of June 30, 1953, the Air Force had approximately 106 wings. The program calls for 115 wings by June 30, 1954, 120 wings by June 30, 1955, 127 wings by June 30, 1956, and 137 wings by the time the goal is reached, June 30, 1957. But there are indications that these goals will be reached a year ahead of the plan, owing to production speed-ups.

The Air Force has a definite 3-year program and its procurement and construction can be planned well ahead to assure maximum efficiency. This 3-year period must be one in which the industry will strengthen its position by plowing earnings into plants and equipment, broadening its production base for future emergencies. By emphasizing its needs for growth, it will strengthen its case against severe renegotiation of profits. It will have to demonstrate important investments in plants and equipment, but this should not entirely rule out better dividends, where earnings and the backlogs justify them.

Expanded Need for Machine Tools

A large scale investment program in machine tools and equipment would strengthen the industry's position against reduced profit margins in another way. At present, the industry is under-capitalized. The plane producers are extensive users of Government-owned equipment. Some companies estimate that as much as two-thirds of their equipment is Government owned, although their own investments in relation to dollar sales are still large. As the industry reduces the proportion of Government owned equipment, it will be in a position to demand better profit margins, approaching those earned in civilian lines. The low profits earned on Air Force contracts in former years have been predicated in part by the armed services on the use of Government-owned equipment. Other industries which use their own plants to produce Government-needed material usually show a larger profit ratio than the airframe companies.

The industry had an unfilled backlog of about $16.7 billion as of last December 31—enough to keep operating at the present level for about two years. In addition, the services had unobligated funds of about $7.3 billion, which will be translated into orders. So, unless there is a new "stretchout" of production by the government for so-called economy reasons, the orders are on hand or in the hopper to carry out the present program. Such long range

ordering has been proven, in the past, to be the wisest and least costly, to the nation.

The all-out type of spending forced by sudden emergencies such as Korea, after an economy wave has starved the aircraft industry, has been shown to be wasteful. Moreover, the false economy on national defense often creates crises by encouraging the aggressors to launch new attacks. The Indo-China crisis should not result in any step up in spending for planes and engines, unless it results in great air activity but it should certainly help to avoid any pruning of the defense budget in the interest of budget balancing.

One procedure which has been planned, to effect sensible economies, is the "initial low rate production plan." Under this approach, after tooling up is completed on an order, production is kept at low levels on planes or missiles, until the new equipment has been thoroughly tested and "bugs" are eliminated. Then production is rapidly increased.

Wage Aspects

Labor demands are not as yet a threat to profits of the plane engine and missile producers. When other industries raise wages—probably by 5 to 10 cents an hour later this year—it can be expected that the aircraft industry will do likewise. It will probably succeed in absorbing these higher costs, through increased efficiency resulting from new methods, new machines, and the usual improvements that come from continued high output.

Technological progress, is of course, a threat in the aviation industry to individual companies, just as it is often a boon to the producer who chalks up the most rapid scientific progress. New developments in engines, missiles, etc., can result in the rapid obsolescence of existing planes, and thus speed up replacement. But also, individual companies may find that contracts will be cancelled because the equipment which they are making suddenly becomes outdated. Such cancellations can be costly.

Producers of electronics equipment are enjoying great benefits from rapid technological progress. So are the makers of missiles and rockets. The possibility exists that at some date push-button warfare featuring electronics will make obsolete planes flown by men. But that does not seem likely to occur. in the near future. In any event, the aircraft companies, such as Glenn Martin, Chance-Vought, Boeing Douglas and others are capitalizing on missile development and production. Missile backlogs are already well over $1 billion, and should increase.

Rapid gains are expected in the use of titanium in planes and engines, as production of this high performance metal is increased. But, in military planes, high usage of titanium will be costed into contracts. The companies will not have to foot the bill on such expensive metals. In commercial planes and engines, higher usage of titanium will pay off through better performance.

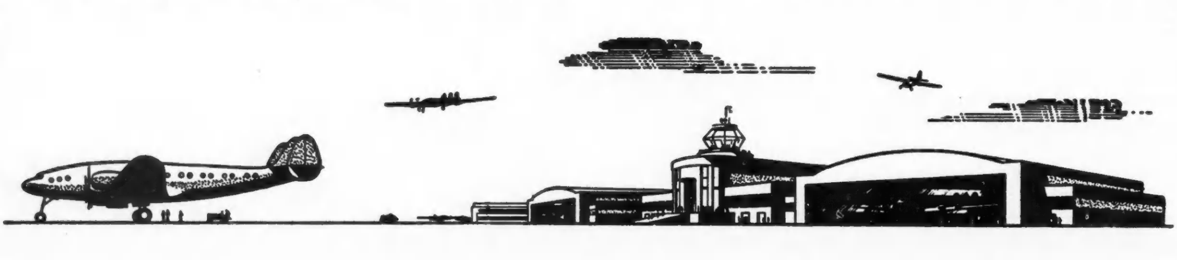
American aircraft and engine producers have a good hold on the worlds' markets. Recent unfortunate accidents to the British made jet Comets, have undoubtedly strengthened the position of the Americans, who have as a result of the mishaps, booked additional orders for reciprocating-type engines, such as the Lockheed Constellations.

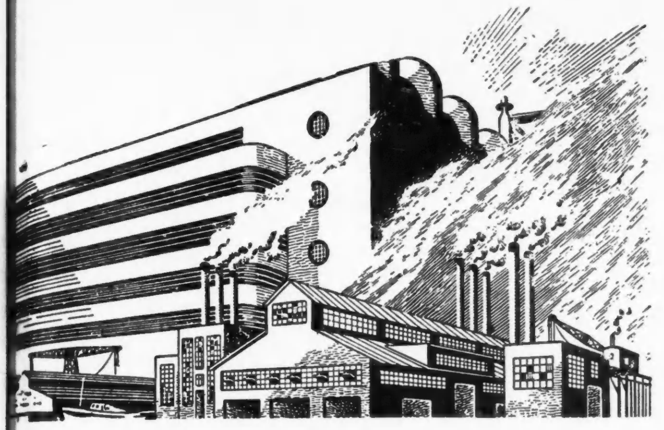
The Americans also seem to have taken leadership in the development of jet engines. And while only one air-frame company—Boeing, is currently planning evaluation tests of a commercial-type jet transport, the 707—the other major companies are not asleep at the switch. Best estimates still name 1960-1964 as the period during which jet transports will begin to go into use on a large scale. Meanwhile, Curtiss-Wright, with orders from 29 air lines for its turbo-compound reciprocating engine, has a nice commercial volume to supplement its military orders, while United Aircraft, with its J-57, only jet engine in the 10,000 pound thrust class at present, has the largest military backlogs of the engine producers.

Fears expressed early this year that Government would tighten up sharply on progress payments to contractors have not been borne out. These payments, given to producers by the Government as work progresses, will continue to be made, according to a new directive issued by the Pentagon. But they will be held to 75 per cent of the total cost of contract, in most cases, or to 90 per cent of labor and materials alone. Progress payments will be eliminated, however, on contracts of $1 million or less, to cut paper work Some increase in borrowing may be necessitated by the new government policy.

Summing up the position of the industry, it appears to be assured of a sustained high level of sales and earnings, not far below the present peak. Aircraft industry employment, currently at 770,000, is not going to be allowed to drop sharply in the near future to the pre-Korean level of 216,000. If spending drops to $5½ to $6 billion a year, by 1957, only 500,000 employes would be needed. Furthermore, the aircraft industry generates employment in other fields—machine tools, metals, etc. An Administration with its ear keenly attuned to the employment situation, as well as to defense needs, is hardly likely to cut defense spending sharply, with the national labor force growing each year. Furthermore, the "cold war" appears likely to last indefinitely, and may even develop into warm-up phases at times, like Korea and Indo-China.

Hence, unless the entire international picture changes suddenly, the aircraft industry right now appears to be justified in counting on a longer period of planned, high-level production than it has ever enjoyed. Scientific developments are coming rapidly, speeding obsolescence of planes currently being produced. If production does (*Please turn to page* 305)





5 Stocks with Generous Dividends

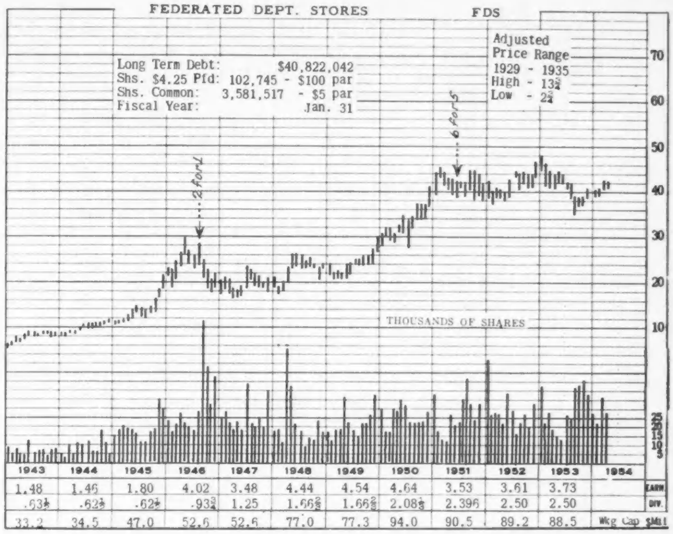
By OUR STAFF

*W*ith the general market at substantially higher levels than last autumn, it is becoming more difficult for investors to find sound stocks that offer a good yield. Most of the better-known high-grade issues sell at a price that returns no more than 4-4½% and some as little at 2%. A decreasing number of good-grade stocks may be found to yield 5%. Yields of 6%-7% are becoming less frequent, except for speculative issues or stocks whose margin of earnings over dividends is declining rapidly.

After careful re-examination of the dwindling number of stocks of good quality that yield in excess of 6% we have selected five that, in our opinion, fulfill the requirements of the average investor. These stocks are strong dividend-payers. All but one have had long dividend records. Federated Department Stores, for example, has paid dividends consecutively since 1931; Inland Steel, since 1934; Louisville & Nashville, except for one year since 1899; Standard Oil of Ohio, since 1936; and St. Regis Paper, the most recent dividend payer of the five companies, since 1947.

Each of these companies has demonstrated a basically strong earnings position in varying kinds of general business conditions, though earnings have not necessarily increased in each year. Financial position is adequate and management considered progressive. These factors are elaborated in the individual analysis in the accompanying text, and are pinpointed in the tables.

The yield on the five stocks combined is about 6.3%. For investors so minded, this group could constitute an interesting "package" type of investment. A number of investors prefer this type of investment to concentrating in one or two stocks.



FEDERATED DEPARTMENT STORES, INC.

BUSINESS: Operates seven department stores, including Abraham & Straus, and Bloomingdale's in New York, the Boston Store in Milwaukee, and Lazarus in Columbus, Ohio. Also operates two specialty stores, Filene's of Boston and Halliburtons of Oklahoma City, and 17 branches in various locations. In addition, its wholly-owned subsidiary, Fedway, now has eight big-city-type stores in operation, located in medium-size or smaller growing communities.

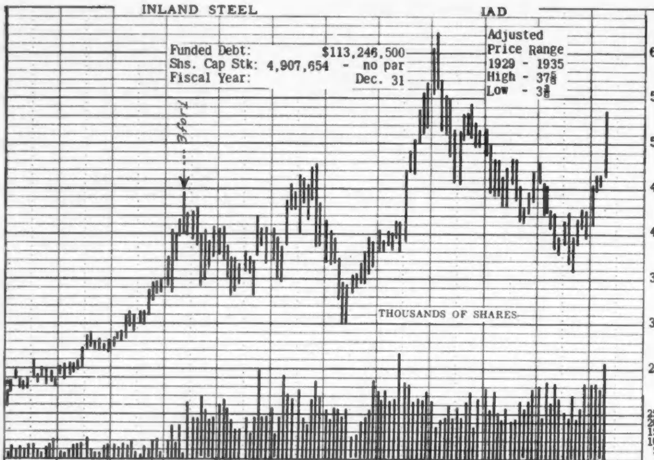
OUTLOOK: Sales growth and operating record of Federated Department Stores have been generally superior to those of others in the merchandising field. Net sales last year, for example, of $478.8 million gained approximately 6.9% over the previous year's record $447.8 million, and resulted in net earnings after taxes equal to $3.73 a share for the outstanding common stock. This compares with $3.61 for the 1952 fiscal year, and $3.81 a share for the preceding 12 months period. The consistent and uninterrupted sales expansinn of the company which has more than doubled annual volume in the last nine years reflects aggressive and yet balanced merchandising policies governing its older retail organizations, acquisitions, and the opening up branch units in rapidly growing suburban areas, the most recent addition being the third Bloomingdale branch which opened in February, this year, at Stamford, Conn., to serve the population of southern Connecticut and affluent Westchester County of New York. These branch units are in addition to Fedway's stores, two of which were opened as recently as January and February, 1954, all of which form a "pilot group" and are expected to prove increasingly profitable as their operations are coordinated with an adequate central organization. Federated has strong finances. As of Jan. 30, this year, cash of $22.4 million formed part of current assets of $139.4 million which were 2.9 times total current liabilities.

DIVIDENDS: The common stock has received dividends in each of the last 23 years. The annual rate has been maintained at $2.50 a share for the last four years.

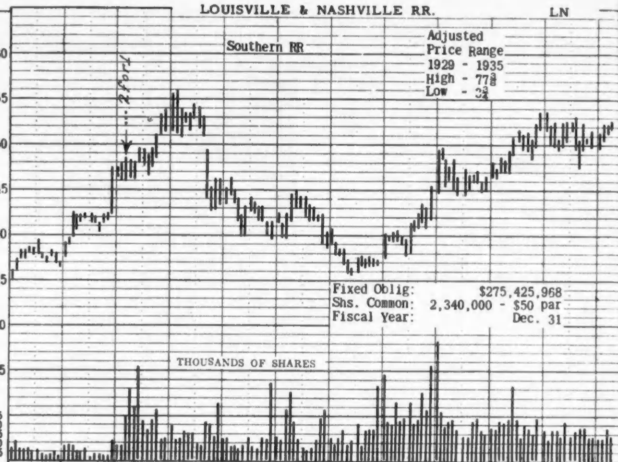
MARKET ACTION: Recent price of 42¼, compares with a 1953-54 price range of High—48, Low—35¼. At current price the yield is just under 6%.

COMPARATIVE BALANCE SHEET ITEMS

	July 31 1944	Jan. 30 1954 (000 omitted)	Change
ASSETS			
Cash & Marketable Secur.	$ 16,028	$ 22,483	+$ 6,455
Receivables, Net	9,135	64,774	+ 55,639
Inventories	18,565	49,268	+ 30,703
Other Curr. Assets	752		— 752
TOTAL CURRENT ASSETS	44,480	136,525	+ 92,045
Net Property	23,395	64,204	+ 40,809
Investments	4,162	1,504	— 2,658
Other Assets	3,086	4,856	+ 1,770
TOTAL ASSETS	$ 75,123	$207,089	+$131,966
LIABILITIES			
Accounts Payable	$ 5,188	$ 27,037	+$ 21,849
Debt Matur.		459	+ 459
Accruals	1,845	3,296	+ 1,451
Tax Reserve	2,881	17,150	+ 14,269
TOTAL CURRENT LIABILITIES	9,914	47,942	+ 38,028
Other Liabilities	7,055	1,896	— 5,159
Reserves	1,831	1,782	— 049
Long Term Debt	12,784	23,306	+ 10,522
Preferred Stock	9,711	9,983	+ 272
Common Stock	9,916	18,000	+ 8,084
Surplus	23,912	104,180	+ 80,268
TOTAL LIABILITIES	$ 75,123	$207,089	+$131,966
WORKING CAPITAL	$ 34,566	$ 88,583	+$ 54,017
CURRENT RATIO	4.4	2.8	— 1.6



	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953	1954
EARN.	2.21	2.09	2.01	3.18	6.10	7.88	5.11	7.76	7.02	4.85	6.90	
DIV.	1.50	1.50	1.50	1.83⅓	2.50	3.00	3.00	3.50	3.50	3.00	3.50	
Wkg Cap $ Mil	62.8	71.9	83.6	98.8	104.9	121.2	115.6	127.7	112.3	148.3	145.6	



	1943	1944	1945	1946	1947	1948	1949	1950	1951	1952	1953
EARN.	9.07	7.95	7.49	4.95	5.68	7.91	3.51	10.39	9.74	10.72	13.10
DIV.	3.50	3.50	3.51	3.52	3.52	3.52	3.52	3.52	4.00	4.50	5.00
Wkg Cap $ Mil	40.7	45.6	48.4	42.5	42.5	70.7	43.6	51.1	38.6	35.4	45.2

INLAND STEEL COMPANY

BUSINESS: An integrated steel company, ranking as the eighth largest in the industry with annual ingot capacity of 4.7 million tons, and sixth on the basis of 1953 earnings. Output well diversified, includes sheet, strip, tin plate and bars, representing 55% of fabricating capacity. A wholly-owned subsidiary is the largest steel warehousing organization in the U. S.

OUTLOOK: Its relative stability of operations has long distinguished Inland among the steel producers. Over the last 15 years, ingot production has never gone below 81.2% of rated capacity which has increased from 2.8 million tons in 1939 to 4.5 million tons last year, and further expanded to 4.7 million tons in 1954 by enlargement of several open hearth furnaces and improvements in operating practices. Last year, the company maintained ingot production at 100.3% of rated capacity when the steel industry as a whole operated at 94.9%. The company's record ingot production of better than 4.5 million tons was matched by record sales of $575.5 million, a 10.8% gain over 1951, the previous record year in sales that totaled $518.6 million. Comparison with 1952 is not possible because of the prolonged steel strike which held the year's output of Inland to 84.7% of the ingot capacity and sales to $458 million. Even so, net for that year amounted to $4.85 a share, compared to $7.02 a share for 1951, and $6.90 a share for 1953, after taxes, including 76 cents a share EPT. So far in 1954, Inland's operations continue to run counter to those of the industry in general. Despite reduced national demand for steel, its output and steel shipments in the first quarter averaged 96% of capacity, with earnings for the three months equaling $1.85 a share, exclusive of seven cents a share income tax refund, as compared with net of $1.39 a share in the first quarter of 1953. With some improvement expected in steel demand during the balance of the year, Inland's 1954 earnings should be over $7 a share for the common shares, its only capital stock.

DIVIDENDS: Since the 3-for-1 split in 1946, annual rate has been increased to $3.00 a share. This rate was supplemented in 1953 by 50 cents a share extra.

MARKET ACTION: Recent price of 53½, compares with a 1953-54 price range of High—55¼, Low—35⅞. At current price the yield, on $3.50 annual dividend, is 6.5%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1944	1953	Change
		(000 omitted)	
ASSETS			
Cash & Marketable Secur.	$ 46,780	$ 66,695	+$ 19,915
Receivables, Net	13,491	28,722	+ 15,231
Inventories	33,488	115,782	+ 82,294
TOTAL CURRENT ASSETS	93,759	211,199	+ 117,440
Net Property	85,303	199,787	+ 114,484
Investments	2,870	12,172	+ 9,302
Other Assets	2,791	9,696	+ 6,905
TOTAL ASSETS	$184,723	$432,854	+$248,131
LIABILITIES			
Sink. Fd. Pay.		$ 2,856	+$ 2,856
Accounts Payable	$ 8,411	28,545	+ 20,134
Accruals	5,602	16,385	+ 10,783
Tax Reserve	7,840	17,802	+ 9,962
TOTAL CURRENT LIABILITIES	21,853	65,588	+ 43,735
Reserves	10,783	6,369	— 4,414
Long Term Debt	32,500	111,146	+ 78,646
Common Stock	62,500	62,852	+ 352
Surplus	57,087	186,899	+ 129,812
TOTAL LIABILITIES	$184,723	$432,854	+$248,131
WORKING CAPITAL	$ 71,906	$145,611	+$ 73,705
CURRENT RATIO	4.4	3.2	— 1.2

LOUISVILLE & NASHVILLE RAILROAD CO.

AREA SERVED: From Cincinnati in the north and St. Louis in the mid-west, L. & N's lines extend southward through growing industrial southern states terminating at New Orleans and running eastward along the Gulf Coast, through Pensacola, to Chatthoochee, Fla., one of a number of points for traffic interchange with the Atlantic Coast Line which owns 35% of L. & N. capital stock.

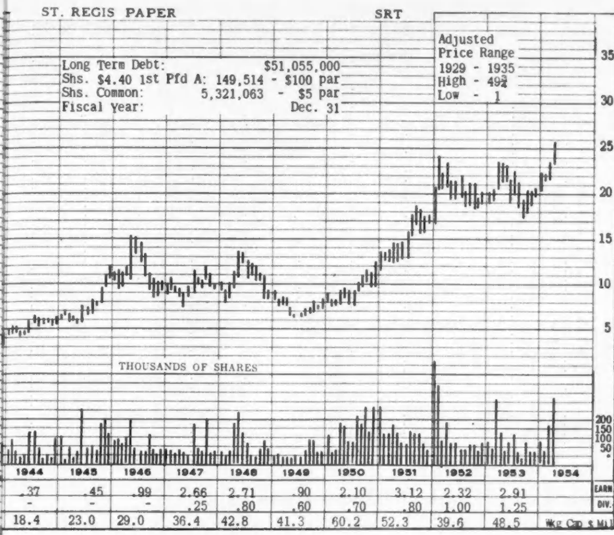
OUTLOOK: Net earnings of L. & N., in 1953 of $30.6 million, an all-time peak, and equal to $13.10 a share on the outstanding capital stock represented a gain of 22.1% over net of $25 million, or $10.73 a share for 1952. This expanded earning power reflects the greatly increased freight revenue stemming from the continued strong industrial growth of the area served, and the substantial operating economies realized from dieselization, yard modernization and other improvements. Within the eight years to the close of 1953, capital expenditures for these improvements totaled more than $253 million, the equivalent of one and one-half times the amount of its funded debt, or over 80% of the net value of its entire physical property as of 1945. The cumulative benefits of these expenditures are reflected in 1953 operating costs being reduced by $4.4 million under 1952, cutting the road's operating ratio from 76.4% in the previous year to 72.5% in 1953. Additional economies are looked for as the fleet of Diesels of which the road now has 467 in operation is increased, and other general refinements and improvements in methods of operation are achieved for which the 1954 appropriation amounts to $25 million, on top of $45 million for improvements in 1953. The road continues to be an important "coaler", but freight traffic has been diversified by the many large new industrial plants in its territory, including 190 new industries in 1953 alone locating along its tracks. Although there may be some decline in traffic this year from the high 1953 level, net should approximate $10 a share for this good dividend paying stock.

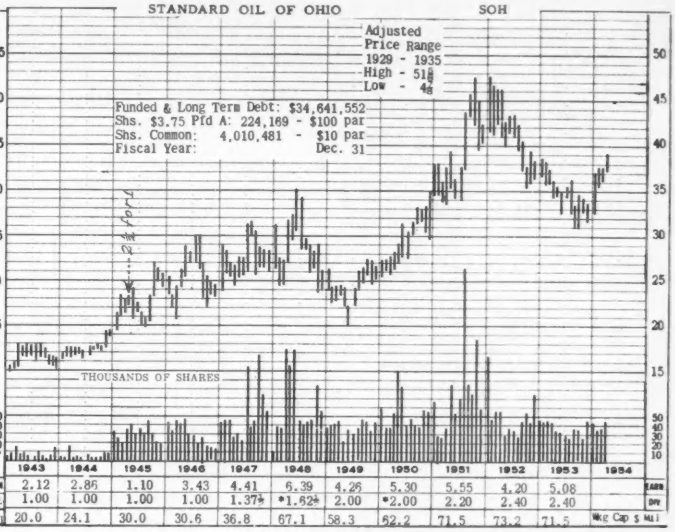
DIVIDENDS: Except for 1933, dividends have been paid regularly for the last 56 years. The current rate is $4 annually, with an indicated $1 year-end extra.

MARKET ACTION: Recent price of 68½, compares with a 1953-54 price range of High—69½, Low—55. At current price the yield is 7.2%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1945	1953	Change
		(000 omitted)	
ASSETS			
Cash & Cash Items	$ 53,348	$ 42,727	—$ 10,621
Receivables, Net	15,263	23,460	+ 8,197
Materials & Supplies	12,461	18,308	+ 5,847
Other Current Assets	17,874	1,503	— 16,371
TOTAL CURRENT ASSETS	98,946	85,998	— 12,948
Road and Equipment	488,809	667,779	+ 178,970
Donation & Grants	cr. 4,061	cr. 4,545	+ 484
Accrued Deprec. & Amort.	cr.145,021	cr.172,685	+ 27,664
Investments and Funds	29,489	59,498	+ 30,009
Other Assets	4,722	6,257	+ 1,535
TOTAL ASSETS	$472,884	$642,302	+$169,418
LIABILITIES			
TOTAL CURRENT LIABILITIES	$ 50,474	$ 40,775	—$ 9,699
Other Liabilities	1,041	750	— 291
Accrued Deprec.—Lsd. Prop.	230	745	+ 515
Other Unadjusted Credits	11,197	6,989	— 4,208
Long Term Debt	176,395	277,390	+ 100,995
Capital Stock	117,000	117,000	....
Surplus	116,547	198,653	+ 82,106
TOTAL LIABILITIES	$472,884	$642,302	+$169,418
WORKING CAPITAL	$ 48,472	$ 45,223	—$ 3,249
CURRENT RATIO	1.9	2.1	+ .2





• Plus Stock Dividend

ST. REGIS PAPER COMPANY

BUSINESS: As a major integrated paper manufacturer, St. Regis controls extensive timberlands and operates 20 mills in the U. S., for the production of pulp, printing, publication and converting papers, a variety of kraft paper and board, and multiwall bags. The company also has steadily expanded as a producer of plastics with four plants in this country and one in Canada.

OUTLOOK: The postwar record of St. Regis has been one of consistent growth. Since the close of World War II its capital expenditures in carrying out a broad expansion and modernization program have amounted to $142 million. Of this sum, a little more than $63 million came from retained earnings. As part of its expansion program, the company in 1953, started operations at its new Jacksonville, Fla., kraft pulp and and paper mill, the output of which, together with increased production at its Pensacola plant, enabled the company to produce 486,000 tons of kraft paper and board last year. This was a gain of 38% over 1952 production, making St. Regis a major producer of kraft paper and board on a national basis, with broad diversification of products. Reflecting overall growth, net sales since 1946 have increased from $82.7 million to a record high in 1953 of $200.3 million with net income for last year amounting to $16.1 million, or $2.91 a share on 5,321,063 outstanding shares of common stock, as compared with 1952 net of $12.7 million, equal to $2.32 a share on a slightly smaller volume of outstanding shares. The outlook for the current year, based on first quarter sales and net income of 70 cents a share, is that 1954 sales and earnings will exceed those of the previous year. The company closed 1953 in a satisfactory financial position with current assets of slightly in excess of $61 million and current liabilities of $12.8 million, a ratio of 4.8 to one. The company appears to be in a sound position to participate in the paper industry's growth as well as the expanding plastics industry. Of added interest is the company's large timberland holdings in the south and their possible oil deposits.

DIVIDENDS: Currently paying $1.50 annually. With virtual completion of expansion program this rate could possibly be increased.

MARKET ACTION: Recent price of 26⅜, compares with a 1953-54 price range of High—26½, Low—17¼. At current price the yield is 6.0%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1944	1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 10,114	$ 15,683	+$ 5,569
Receivables, Net	4,158	15,043	+ 10,885
Inventories	7,387	25,763	+ 18,376
Other Current Assets	987	4,878	+ 3,891
TOTAL CURRENT ASSETS	22,646	61,367	+ 38,721
Net Property	32,179	120,801	+ 88,622
Investments	2,495	5,366	+ 2,871
Other Assets	1,456	3,771	+ 2,315
TOTAL ASSETS	$ 58,776	$191,305	+$132,529
LIABILITIES			
Accounts Payable	$ 2,173	$ 5,918	+$ 3,745
Accruals	1,226	3,531	+ 2,305
Tax Reserve	......	292	+ 292
Curr. Mat. Debt	792	3,070	+ 2,278
TOTAL CURRENT LIABILITIES	4,191	12,811	+ 8,620
Other Liabilities	3,498	364	— 3,134
Reserves	673	3,500	+ 2,827
Long Term Debt	9,708	51,055	+ 41,347
Preferred Stock	7,372	14,951	+ 7,579
Common Stock	20,603	26,605	+ 6,002
Surplus	12,731	82,019	+ 69,288
TOTAL LIABILITIES	$ 58,776	$191,305	+$132,529
WORKING CAPITAL	$ 18,455	$ 48,556	+$ 30,101
CURRENT RATIO	5.0	4.8	— .2

THE STANDARD OIL COMPANY (Ohio)

BUSINESS: Together with its wholly owned subsidiaries, operates trunk and gathering pipe lines, four refineries and complete marketing facilities supplying owned and leased stations as well as independent dealers throughout Ohio with refined products. Also operates a natural gas compression plant for processing natural gas production. Crude oil production from own acreage is augmented by outside purchases.

OUTLOOK: Again, as in the last five years, Standard of Ohio established a new all-time peak in sales and operating revenues in 1953 at $317.1 million, as compared with $282.5 million in 1952, and $276 million in the year previous. Income augmented by miscellaneous earnings of $2.6 million, including profit from sale of certain assets, totaled $21.2 million, equal to $5.08 a share for the common stock. This represented a 20% gain over the 1952 results when net amounted to $17.6 million, or $4.20 a share. Standard of Ohio, or Sohio as it is known throughout its territory, has more than doubled its net income on the basis of 1953 net as compared to $10.3 million shown for 1946. This growth reflects the dynamic policies of management in research and development, and substantial capital expenditures totaling $66.7 million in the last two years, and another $40 million projected for 1954. These improvements are financed via internal funds, for the development of petroleum reserves in this country and Canada, and expanding production facilities. Among projects undertaken last year was a $3 million aviation gasoline alkylation plant at the Toledo refinery, now completed, doubling high-octane aviation gasoline capacity, and providing for the conversion of certain refinery gases into high-valued products. At the Lima refinery work was started on a $7.5 million catlytic reformer scheduled for completion this summer. This unit will be capable of handling 12,000 barrels a day and will further improve yield and quality of high-value products, and combined with over-all progress further increases the earnings strength of the company.

DIVIDENDS: Since the stock split in 1945, annual dividends have been increased to present rate of $2.40 a share which have been maintained since 1952.

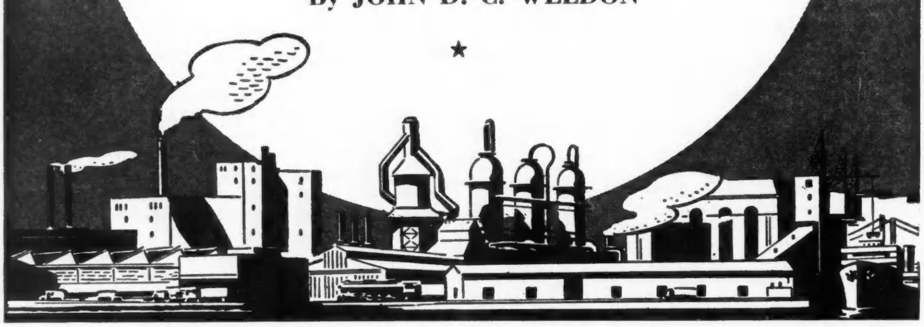
MARKET ACTION: Recent price of about 40, compares with a 1953-54 price range of High—42⅛, Low—31. As current price the yield is 6%.

COMPARATIVE BALANCE SHEET ITEMS

	December 31 1944	1953 (000 omitted)	Change
ASSETS			
Cash & Marketable Securities	$ 16,001	$ 36,969	+$ 20,968
Receivables, Net	18,112	36,672	+ 18,560
Inventories	19,445	46,330	+ 26,885
Other Current Assets	1,750	....	— 1,750
TOTAL CURRENT ASSETS	55,308	119,971	+ 64,663
Net Property	74,989	169,771	+ 94,782
Invest. & Other Assets	6,613	6,397	— 216
TOTAL ASSETS	$136,910	$296,139	+$159,229
LIABILITIES			
Curr. Debt Matur.	$ 2,322	$ 2,089	—$ 233
Accounts Payable	22,043	34,302	+ 12,259
Accrued Taxes	6,511	11,818	+ 5,307
Accruals	258	210	— 048
TOTAL CURRENT LIABILITIES	31,134	48,419	+ 17,285
Reserves	1,845		— 1,845
Long Term Debt	20,200	34,641	+ 14,441
Preferred Stock	22,139	22,618	+ 479
Common Stock	20,278	40,195	+ 19,917
Surplus	41,314	150,266	+ 108,952
TOTAL LIABILITIES	$136,910	$296,139	+$159,229
WORKING CAPITAL	$ 24,174	$ 71,552	+$ 47,378
CURRENT RATIO	1.8	2.4	+ .6

A STUDY IN LOW-PRICED STOCKS

By JOHN D. C. WELDON



Headlines in the daily press recently reading "Stock Market at Highest Level Since 1930", or "Stocks Again Rise to 24-Year Peaks", undoubtedly would give a cursory reader the impression that the market was in a major uptrend in which the great majority of individual issues was participating.

Attesting the inaccuracy of such an impression is the action of the market during the last few weeks, with volume of trading frequently exceeding two million shares a day, almost as many issues made new lows as there were those making new highs. From the time the market began its climb from the September, 1953, low point, it has been highly selective with demand being centered in the so-called "blue chip" issues and spreading to some of those of lighter hue with good earnings and dividend records. Buying of the higher-grade issues has not been confined to any one particular group, investor interest shifting, from time to time, from the oils to the chemicals and then to the electric equipment manufacturers, the rails, steels, building or some of the other groups.

Low-Priced Stocks Laggards

Meanwhile, investors holding low-priced issues, hoping that these too would move up in keeping with the strength demonstrated by the high-priced issues, have been disappointed. Although there have been a few issues selling under 25 that have scored some market appreciation since the September low, stocks in this category have been virtually dormant marketwise, or in some instances have made new lows so far in 1954. Gains in price of issues in this class since September, 1953, low level as measured by The Magazine of Wall Street Index is equal to approximately 16% up to the present. This is in comparison to a 30% rise in the market value of higher-priced stocks in the same period according to the MWS Index, and in sharp contrast to the rapidity with which low-priced issues moved ahead in previous strong markets in recent years, based on war, the preparation for war, or periods of generally broad prosperity.

For instance, the bull market, that began in 1942, and culminated in 1946, generated sufficient speculative enthusiasm to carry the low-priced MWS Index from 31.66 to 247.99, while the upturn beginning in mid-1949, broadened out following the outbreak of trouble in Korea, coupled with tremendous government expenditures for defense, carried the index for low-priced stocks from 119.71 to a March, 1953 high of 260.6, which compares with 243.9 at the present time.

On the other hand, the MWS Index of high-priced stocks shows this group advanced from a mid-1949 low of 70.82 to a high of 133.5 in 1953, prior to the decline which carried (*Please turn to page* 307)

Earnings-Dividends-Ratings — 88 Low-Priced Stocks

	1953 Earnings Per Share	1953 Div. Per Share	Price Range 1953-54	Recent Price	Rating
Acme Steel	$ 3.35	$ 1.60	26¾-20	21	H
Admiral Corp.	3.48	1.00	27¼-18¼	19	H
American Locomotive	3.40	1.40	18⅞-12½	14	P
American Motors	n.a.	......	14¾-11	14	P
American Rad. & S. S.	1.83	1.25	18⅝-12⅝	18	F
Bigelow Sanford	3.23	......	16 - 9¾	10	H
Bliss (E. W.)	3.45	1.45[1]	20¼-12¼	20	P
Bohn Alum. & Brass	3.02	1.10	24⅜-16⅛	22	P
Bristol-Myers	1.44	1.00	26⅝-17½	23	H
Burlington Mills	1.35	.60	17 -10¼	12	H
Burroughs Corp.	1.44	.80	20⅜-13½	20	H
Canada Dry	1.15	.70	14⅝-10	14	H
Case, (J. I.)	.06	2.00	25 -13⅞	15	P
Celotex Corp.	3.15	1.50	19¾-15½	18	H
Certain-teed Products	2.43	1.00	16¼-11½	16	H
Cincinnati Gas & Elec.	1.56	1.00	23⅛-17½	22	F
Clevite Corp.	1.77	1.15	30⅛-18	20	F
Columbia Gas System	.73	.90	15 -12½	14	H
Commercial Solvents	1.01	1.00	22¼-15¼	16	H
Congoleum-Nairn	1.96	1.50	24½-17½	19	H
Crucible Steel	5.29	......[2]	33⅝-20¾	24	P
Cuban American Sugar	1.01	1.00	17 -11⅜	12½	P
Diana Stores	1.34	.80	13½-10¾	11	F
Dome Mines	.86	.70	23⅜-13⅞	16	H
Eagle Picher	3.28	1.50	23¾-17½	19½	H
Fairbanks Morse	3.55	1.50	28⅝-21	22	P
Family Finance	1.90	1.40	19 -15⅞	18½	F
Fansteel Metallurgical	1.85	.50[1]	34⅜-21¾	23	H
Fedders-Quigan Corp.	1.20	......[2]	18 -10¾	15	H
Ferro Corp.	2.63	.80[2]	29⅞-19	23	H
Gair (Robt.) Co.	2.96	1.50	23¾-15¾	22	H
Goodall-Sanford	.73	.75	19 - 9¾	11	P
Granite City Steel	3.77	......[2]	20⅞-14¼	16	H
Greenfield Tap & Dye	3.22	2.00	23¾-19½	21	H
Greyhound	1.27	1.00	14⅛-12¼	14	H
Heyden Chemical	.69	.50	18⅞-12⅛	15½	H
Hilton Hotels	3.92	1.20	20⅝-15⅛	20½	H
Holland Furnace	1.05	1.00	22 -10⅝	13	P
Houdaille-Hershey	3.27	1.50	17 -12	15	H
Int. Tel. & Tel.	3.12	1.00	20¼-13½	16	F
Island Creek Coal	1.14	1.75	30¼-14⅛	14½	H
Jefferson Lake Sulphur	2.02	1.20	25½-17¼	25	F
Jones & Laughlin Steel	4.77	1.95	24¼-19	22½	H
Kelsey-Hayes Wheel	4.08	1.50	22¼-13⅝	19	H
Lambert Co.	$ 2.62	$ 1.50	25¼-19⅞	22	H
Lehn & Fink	3.04	1.25	18⅝-14	17½	H
Lerner Stores	1.95	1.50	22⅝-16	19	H
Lionel Corp.	2.25[3]	1.25	27⅞-19¼	21	H
Loews	.85	.80	15⅛-10⅝	15	H
Long Island Lighting	1.16	.92	21⅛-15½	21	F
Mack Truck	1.63	......[2]	15⅞-10⅛	12½	P
Macy (R. H.) & Co.	2.20	1.60	26 -20¼	23	H
Magnavox Co.	2.93	1.50	22¼-15⅝	17	H
Marathon Corp.	1.55	1.20	25 -16¾	21	F
Masonite	2.72	1.00	25⅞-16½	18	F
Maytag Co.	3.53	2.00	21 -16	18	H
McCrory Stores	1.50	1.10	15¾-11¾	13	H
Mengel Co.	2.30	1.00	14¾-11⅛	12½	H
Merck & Co.	.96	.80	25⅞-17	20	F
Mohawk Carpet	2.64	2.00	32⅝-19⅝	20	H
Monarch Machine Tool	4.18	1.35	21¼-15¼	20½	H
Montana Dakota Util.	.95	.90	28½-17½	22	F
Moore McCormack Lines	2.64	1.50	18⅛-11¾	14	P
National Container	1.07	.60[1]	12⅝- 9	12	H
N. Y. Air Brake	2.84	1.60	23⅛-17⅛	19½	H
Nopco Chemical	1.88	1.35	22¼-16	21	H
Norwich Pharmacal	1.62	1.00	25⅛-18½	23	F
Oliver Corp.	1.18	1.20	14¾- 8⅝	10½	H
Pabco Products	.90	.25	18¼-11½	18	H
Pacific Mills	2.54	1.40	30 -22⅜	25	H
Pepsi-Cola	.95	.25	16⅝-10¾	16	H
Pittsburgh Coke & Chem.	2.63	1.25[1]	29¾-18¼	19	F
Remington Rand	2.32	1.00	19⅝-13½	18	F
Robertshaw-Fulton Cont.	1.90	1.50	21⅝-16⅞	20	H
Rockwell Spring & Axle	3.12	.50	22⅛-18¼	21	H
Schering Corp.	.91	.50	17 -11	12½	F
Standard Coil Products	2.02	1.00	17¼-12¼	13	F
Studebaker	1.14	3.00	43½-14½	16	H
Sunray Oil	2.54	1.20	21¾-15	19½	F
Tide Water Assoc Oil	2.89	1.15	27¼-19⅜	20½	F
Tung-Sol Electric	3.07	1.25	24⅞-15⅞	18	F
Twentieth Cent.-Fox Film	1.65	1.00	22½-13½	19½	H
U.S. Hoffman Machinery	(d)4.21	......	35¼-14¼	16	P
Van Norman Co.	2.41	1.40	17⅝-11⅛	11½	H
Virginia-Carolina Chem.	5.12	......	27⅝-16⅛	24	F
Warner Bros. Pictures	1.18	.90	17⅛-11⅛	15	H
West Indies Sugar	1.24	1.00	29¾-17⅛	18½	H
Weston Elect. Inst.	2.40	1.00	24¾-16½	24	F

(d)—Deficit.
n.a.—Not available.

[1]—Plus stock.
[2]—Div. paid in stock.
[3]—Estimated.

RATING: (F)—Favorable outlook.
(H)—Hold temporarily.
(P)—Unattractive.

Prospects for Three Leading

DAIRY COMPANIES

By FRANK S. WALTERS

Having established all-time peak sales and shown an upturn in profits in 1953, the leading dairy products companies entered the current year with considerable optimism, confident that 1954 net earnings will surpass those of the previous year.

First quarter results of the two biggest of the dairy processors show the industry got off to a good start. National Dairy Products Corp., in the first three months reported net earnings at the highest level for any first quarter in its 30 year history. While dollar volume remained at about the same level as year ago because of generally lower prices, profit in relation to sales increased to 2.49 per cent from 2.14 per cent for the 1953 first quarter. Net income rose to $7.4 million, or $1.11 a share. This is a gain of 16.7 per cent over 1953's first quarter net of approximately $6.4 million, the equivalent of 97 cents a share.

The Borden Co., following its usual custom of not releasing quarterly figures, reports, however, that while, like National Dairy, generally lower prices held dollar sales to about the same level as was shown for the first quarter of last year, lower raw products cost and higher volume improved profits. For all of 1953, Borden's sales totaled $792.3 million, with net income of $20.2 million representing a 15 per cent increase over the preceding year's net of $17.6 million, or $4.11 a share as compared to $4.71 a share earned in 1953.

Beatrice Foods Co. ended its fiscal year on February 28, last, so it will not complete the first quarter of the current fiscal year until May 31. Dollar sales of $275 million last year gained 17 per cent over those reported for the year before amounting to $235.2 million. Of the increase, $25.8 million, or 11 per cent represented sales by former plants of Creameries of America, acquired by Beatrice last August 1, and the balance of $14 million growth being accounted for by Beatrice Foods' plants. Consolidated net earnings last year of $4.4 million increased by 21 per cent over $3.9 million for the previous year, and were equal to $3.90 a share for the common stock as against $3.67 a share for the year ended Feb. 28, 1953.

Outlook for Industry

Several factors contribute to the still better dairy outlook for 1954. This year the industry will have full 12 months' benefit of lower raw products prices, while the reduction of price supports on milk and butterfat from 90 to 75 per cent of parity, effective April 1, will cut prices for fluid milk and processed dairy products stimulating increased purchases through lower consumer prices. Aside from this development, it is expected that fluid milk sales, up substantially in 1953 over the previous year, will continue in an uptrend, reflecting greater consumption by a population that is growing by almost three million a year.

Milk, however, is only one of the important products of these companies that serve American consumers who are currently spending 27 per cent of their disposable income on food. Although fluid milk continues to contribute approximately a little more than one-third to dollar sales volume, diversification of products and constantly expanding marketing territories are also strong props to the sales and earnings position of these companies.

BEATRICE FOODS, for example, sold more butter through regular trade channels in its last fiscal year than for the past several years. Sales of its butter department accounted for 19% of the total dollar sales for the year. Ice cream sales accounted for 18 per cent of the total sales and is likely to improve on that figure during the current year with the advent of normal warm weather and the introduction this year of an extra-quality, premium ice cream under the company's nationally known "Meadow Gold" brand name. Beatrice has also been developing its specialty foods and services at a rapid rate. Sales volume of this department last year totaled $49.7 million, compared to $40.8 million, a gain of 22 per

cent over the previous year, and representing 18 per cent of total sales for the fiscal year to Feb. 28, last. Included in these services and products are frozen foods, margarine, salad dressings, various meat items, commercial feeds, the company's own La Choy Chinese foods, and revenues from cold storage warehouses and other sources.

During the current fiscal year, Beatrice will reflect full 12 months' operations of the plants of Creameries of America which it acquired on favorable terms, and extending its operations into seven western states and the Hawaiian Islands. Indicative of the company's efficient decentralized management is its long established policy of maintaining tight control over inventories, resulting in a ratio of sales to year-end inventory, as of Feb. 28, last, of 31-to-1, one of highest ratios in the food industry.

THE BORDEN CO., which increased its profit margin in 1953 to 2.6 cents per dollar of sales from 2.3 cents in 1952, benefited from a combination of a number of factors. Among these were a larger volume of unit sales, lower farm prices and improved efficiency derived through modernization of methods and installation of new equipment. Last year the company spent more than $14 million on replacement, modernization and expansion. This year, it has budgeted close to $14 million for the same purposes, and will supplement this sum with approximately $4.3 million that had been previously approved but not used. Scheduled for construction during this year are fluid milk plants at Pensacola, Fla., and Detroit, Mich., and ice cream manufacturing facilities in several cities.

A significant development in Borden's operations has been the increase in sales of its "Gail Borden" milk, a top-quality vitamin- and mineral-fortified fluid milk, enthusiastically received by consumers wherever introduced and endorsed by nutritionists. The number of plants handling this product has more than doubled and other plants will be added as public authorities change ordinances, permitting the sale of a milk thus fortified.

Borden, while maintaining its foremost position in the fluid milk field, has steadily expanded sales of its "Lady Borden" ice cream which it distributes from more than 200 distributing centers located in 32 states. Helping to encourage ice cream consumption which was at the rate of 4.5 gallons per capita in 1953, nearly double that of any prewar year, has been the emergence of the supermarket and other food stores as important retail outlets, accounting for about one-third of total ice cream sales.

The Borden Co., in diversifying operations, has not confined itself to the dairy processing field. Of course, it is a big cheese producer and its "Starlac", a consumer-packaged dry skim milk is one of the largest selling products of its kind. Other food products include evaporated milk, its famous "Eagle" Brand sweetened condensed milk, Borden's instant hot chocolate, "None Such" mince meat and Borden's 100% Pure Instant Coffee. The rapid growth in popularity of instant coffees can be measured by the increase in total sales in 1948 of approximately $45 million to a 1953 peak of $195 million, and indications are that total 1954 volume will come close to $250 million. To meet growing demand for its instant coffee, Borden last year started processing at a second plant to serve southern and western markets.

The company also continues to expand activities in the chemical field through development of new or improved products, and the acquisition last year of plants for the production of vinyl, butadiene-styrene, and other products which will increase and strengthen established lines, including resins and adhesives, formaldehyde, and molding compounds.

NATIONAL DAIRY PRODUCTS CORP., in 1953, for the third consecutive year did a sales volume in excess of $1 billion, actual net sales for last year totaling $1,232 million, more than doubling dollar volume of 10 years ago. Among the company's famous national brands are "Sealtest", "Kraft", "Breyer" and "Breakstone," names that are attached to such dairy products as fluid milk and cream, ice cream and a wide variety of cheese, butter, eggs and margarines. Equally famous brand names in the National Dairy Group are "Deer Foot Farms" sausage and frozen meat products, "Philadelphia" cream cheese, and the Kraft Foods division's "Velveeta" processed cheese food, (*Please turn to page* 308)

Comparison of Leading Dairy Products Companies

	BEATRICE FOODS CO.	THE BORDEN COMPANY	NATIONAL DAIRY PRODUCTS CORP.
CAPITALIZATION:			
Long Term Debt (Mil.)	$ 2.5	$ 57.2	$101.4
Preferred Stock (Mil.)	$ 11.7	None	None
Common Stock (No. of Shares)	1,155,243	4,300,000	6,659,683
Total Surplus (Mil.)	$ 30.8	$123.0	$182.2
Working Capital (Mil.)	$ 27.4	$119.5	$180.3

	BEATRICE Net Sales (Millions)	BEATRICE Earnings Per Share	BEATRICE Div. Per Share	BORDEN Net Sales (Millions)	BORDEN Earnings Per Share	BORDEN Div. Per Share	NATIONAL DAIRY Net Sales (Millions)	NATIONAL DAIRY Earnings Per Share	NATIONAL DAIRY Div. Per Share
1944	$110.3	$ 1.48	$ 1.02	$410.4	$ 2.35	$ 1.70	$593.8	$ 2.12	$ 1.10
1945	125.1	2.64	1.02	459.4	2.85	1.80	632.7	2.25	1.40
1946	170.0	5.01	1.52	543.0	4.64	2.25	742.4	4.05	1.65
1947	181.7	3.20	1.25	602.9	4.61	2.55	897.3	3.68	1.80
1948	192.1	4.50	1.25	649.6	4.46	2.55	986.4	4.03	1.80
1949	190.4	5.12	2.50	613.7	5.10	2.70	897.6	5.26	2.20
1950	205.2	4.53	2.50	631.1	4.69	2.80	906.6	5.14	2.80
1951	228.6	3.62	2.25	722.7	4.20	2.80	1,066.1	4.16	2.90
1952	235.2	3.67	2.25	768.0	4.11	2.80	1,141.2	4.22	3.00
1953	275.0	3.90	2.25	792.3	4.71	2.80	1,232.1	4.63	3.00

FOR

PROFIT AND INCOME

Leading

Although there is a considerable week-to-week shift in relative positions of the stock groups, a number have been among the upside leaders for some time and are still showing above-average strength up to this writing. They include building materials, chemicals, finance companies, packaged foods, machinery, oil and paper. After large prior advances, the electrical equipment and aluminum groups indicate need for at least a rest, if not some correction. Recent features were attainment of a new bull-market high by electric utilities after a four-week pause; an improvement in the long-depressed textile group; and a sufficient extension of the recovery in coppers to make their performance better than that of the industrial list for the first time in a great many months.

Textiles

While retail demand for textile products has remained high and fairly steady, as is usually so except under more adverse general economic conditions than now prevail, the manufacturers have been in a depression for two years or so, as a result of previous overproduction, excessive inventories and price cutting. However, the worst has evidently now been put behind. Following a sufficiently protracted period of reduced output, a large paring down of inventories and cutthroat pricing, the industry always has an assured basis for an upward turn. But the precise timing thereof hinges mostly on trade sentiment, and thus is never predictable. Neither is the scope or duration of the improvement. There was a recent sudden surge of buying of cotton print cloths at firmer prices. Woolen prices have improved slightly. So have those of some synthetics other than rayons. Some textile dividends have heretofore been cut or passed. Second-quarter earnings will still be mostly poor, but second-half comparisons should be better, on present indications. Most textile stocks are devoid of investment appeal. As with other volatile issues, speculation in them can, of course, be rewarding at times, but it takes nimble (and risky) trading since they can move fast either way. There has already been a sizeable rebound in this section of the market. Our suggestion is that those now owning textile stocks should hold them for possible further recovery, but that new buying should not be risked.

Coppers

The postwar highs, all at levels under the all-time highs of 1929, were set by Anaconda Copper and Kennecott early in 1952, by Phelps Dodge early in 1953. Subsequent declines into September of last year were wide. Measuring postwar highs, 1953 lows and current prices against 1929 highs, Phelps Dodge makes by far the best showing, Anaconda the worst. At recent best rally levels, Phelps Dodge had recovered roughly 77% of its prior decline, Kennecott 70%, Anaconda only 30%. Through nine months of business recession, maintenance of the 30-cent price for copper has surprised everybody. It has been due to the following factors: (1) Prompt action by the companies, led by

INCREASES SHOWN IN RECENT EARNINGS REPORTS

		1954	1953
Armco Steel	Quar. Mar. 31	$1.75	$1.49
Climax Molybdenum Co.	Quar. Mar. 31	1.34	.80
Pullman Inc.	Quar. Mar. 31	1.91	1.24
Sutherland Paper Co.	Quar. Mar. 31	1.15	.78
General Amer. Transport	Quar. Mar. 31	1.25	.80
National Gypsum Co.	Quar. Mar. 31	.94	.66
Texas Co.	Quar. Mar. 31	1.85	1.55
Bullard Co.	Quar. Mar. 31	2.58	1.50
McGraw Electric	Quar. Mar. 31	2.56	1.77
Brooklyn Union Gas	Quar. Mar. 31	1.32	.92

Kennecott, to adjust output to demand; (2) Government stockpiling policy; (3) maintenance of high or rising business activity in a majority of the more important foreign countries, tending to support world prices; and (4) conjecture about U. S. military undertakings in Southeast Asia. With inventories reduced, domestic demand has improved recently, requiring a modest boost in production from previous lowest levels. If the worst of the business recession has been seen, it is at least conceivable that the industry might ride out the adjustment without any price cut, contrary to all past experience. Reflecting uncertainty, the stocks are still on a relatively high current yield basis at 8.1% for Anaconda, 7.5% for Phelps and 7.4% for Kennecott. The chances for further recovery appear good enough to justify retention of present holdings. They are not good enough, allowing for increasing long-term competition from aluminum, to invite new buying.

Dividends

Although much will depend on the total of year-end extras, governed by conditions at the time, present indications are that aggregate 1954 dividends will at least approximate 1953's record level; and that those of larger companies, with equities listed on the New York Stock Exchange, will moderately exceed last year's. This prospect, plus the Administration's easy-money policy, has no doubt contributed more to the stock market's long advance than any other tangible factors. First-quarter dividends on Big Board stocks were 11.2% above the year-ago level. They set a new record for any first quarter; and it was the 12th consecutive year in which first-quarter payments were higher than in the previous year.

Special Situation

There are a few utility special-situations worth comment. One is Rockland Light & Power, whose stock is traded over-the-counter, with bid quotation currently around 14. The decisive consideration is nearing completion of the new York State Thruway, including the new Hudson River Bridge at Nyack. The assured effect will be to make the company's territory more of a New York City suburb, and to spur residential, commercial and industrial development therein. The industrial shift into the area, featured by a new Ford Motor Company plant, has already begun. The stock, with a postwar range of 7¼-14¼, is not cheap on 1953 earnings of 61 cents a share or the current 60-cent dividend, yielding about 4%. But earnings are likely to show a material gain this year; and growth both of net and dividends is in prospect over the next five years and beyond. The stock might be deemed suitable for speculative appreciation in limited amounts.

Another

Another special-situation utility with possibilities over a reasonably extended period of time is International Utilities, a U. S. holding company whose subsidiaries supply natural gas and electricity (mainly gas) in Alberta, Canada, and which owns a substantial stock interest in Anglo-Canadian Oil. Prospects for economic growth and for oil and gas development in the area are promising. Listed on the Big Board, the stock is currently priced at 30 on 1953 earnings of $1.96 a share, which is expected to be exceeded considerably this year, and a $1.40 dividend, yielding over 4.6%.

Automotive Stocks

Divergences in market behavior of automobile and auto parts stocks are wider than they have generally been in the past, making so-called group action of very limited significance. They reflect mainly the competitive shift of demand for automobiles in favor of General Motors and Ford, against Chrysler and the smaller auto makers. In many cases auto parts makers are under pressure to shave down their selling prices to hold or get supply contracts. We have expressed the view previously that automobile holdings should be concentrated in General Motors. It recently reached a new all-time high of 72¾. If Ford stock were listed, no doubt it would be selling at an advanced level. Despite some recent rallies, Chrysler, Studebaker and other auto stocks remain far down from earlier highs. Auto parts stocks depressed by the trade shifts cited include Electric Auto Lite, Campbell Wyant, McCord, Midland Steel Products, Motor Products, National Automotive Fibres and Young Spring & Wire. The stocks of such well-situated companies as Borg Warner, Libbey-Owens-Ford Glass (biggest customer General Motors) and Thompson Products are performing well and are among the best issues in the auto parts group.

Atomic Stocks

People ask for lists of atomic-energy stocks. There are scores of companies with some atomic-energy angle; few, aside from speculative ventures in uranium mining, for whom any kind of activity having to do with nuclear fission amounts to much as a percentage of total volume or profits. The question of what companies might benefit importantly over the long term by peaceful uses of atomic energy will remain conjectural for some time to come. Should power ever be widely derived from nuclear fission, the bituminous coal industry would suffer seriously, perhaps fatally; and both natural gas and oil might be affected to some extent. This aspect of the question will bear watching, but the answer will not be supplied any time soon.

DECREASES SHOWN IN RECENT EARNINGS REPORTS

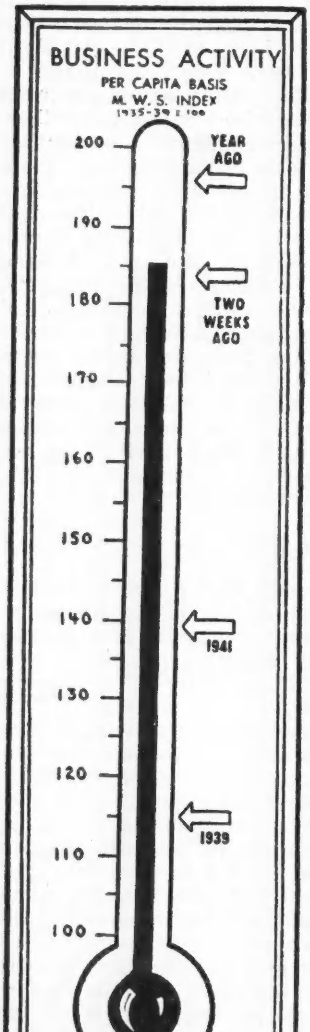
		1954	1953
Allegheny Ludlum Steel	Quar. Mar. 31	$ .58	$1.21
Aluminum Co. of Amer.	Quar. Mar. 31	.78	1.29
Atchison Topeka & S. F. Ry.	Quar. Mar. 31	2.25	3.73
Howe Sound Co.	Quar. Mar. 31	.09	.21
Koppers Co.	Quar. Mar. 31	.69	1.05
United Biscuit Co. of Amer.	Quar. Mar. 31	.40	1.06
Mohawk Carpet Mills	Quar. April 3	.62	1.54
Southern Railway	Quar. Mar. 31	1.88	2.76
Barber Oil Corp.	Quar. Mar. 31	.38	.53
Texas & Pacific Rwy.	Quar. Mar. 31	3.23	6.12

The Business Analyst

What's Ahead for Business?

By E. K. A.

The consumer credit situation, which so many economists and businessmen were worrying about when business turned down last Summer, appears to be adjusting itself without any undue strains. Despite the rise in unemployment and the contraction in weekly wages as a result of the elimination of overtime and shortening of the work week, repayments have been well maintained and the rate of repossessions has risen only slightly.



Consumers have pulled in their horns a little, and are tending to pay off their old loans while holding down their new commitments. At the same time and despite the tendency for income to contract, consumer savings have increased. These are inevitable precautionary measures when the trend of business activity and employment is downward and the future is uncertain. Now that the decline in industrial activity apparently has been checked, as evidenced by the Federal Reserve Board index of industrial activity for April, consumers may well be inclined to less caution.

With Washington committed to a policy of "full" employment, the old prewar yardsticks of credit-income ratios do not appear to be entirely applicable to present day conditions. As the standard of living in the United States has risen, consumer emphasis on durable goods has increased. These are "big ticket" items, as retailers term them, and cannot be moved freely without the maintenance of a fairly liberal credit policy.

As it is, dealers in automobiles, household appliances, furniture, and other consumer durables have felt considerably the effects of consumer caution far more than have dealers in nondurables. The fact that consumer purchases of many types of durables can be postponed for varying lengths of time shows up rather quickly when the general economy is in a declining phase.

The total outstanding volume of short- and intermediate term consumer credit at the end o March was $27,151 million, comparing with the all-time pea of $28,896 million at the end of December and $25,946 mi lion at the end of March last year. Some of the contractio in recent months has been purely seasonal, representin primarily payments on the annual Christmas shopping splurge

Although the seasonal trend during the early part of th year is none too clearly defined, the March data confirm tha the contraction was greater than the usual seasonal expe tation. Customarily, the outstanding volume of credit contrac in January and February, and tends to stabilize or expan slightly during March.

During March, consumer installment credit extended totale $2,285 million while, at the same time, repayments totale $2,536 million. On the basis of the Federal Reserve Boar adjustments for seasonal variation, March credit extende showed a decline of 2 percent from February while repay ments increased 4 percent. In other words, the situatio showed only a minor change during the month, takin seasonal factors into consideration.

This is an important consideration, since our economy no rests so strongly on consumer durable goods which, in tur rest strongly on the willingness of consumers to commit them selves for rather extended periods of repayment for cred extended. It well may be, of course, that heightened inte national tension—stemming from the Indo-Chinese situation was largely responsible for the unexpected turnabout i consumer purchases of durables in April. There was muc talk of war, conveying ideas of shortages, in the air. What ever may have been the reason, it is apparent that co sumers—despite the fact that the bloom is off the postwa industrial boom—are not unduly concerned about their abilit to meet their obligations.

The Business Analyst

HIGHLIGHTS

MONEY & CREDIT—The Treasury's recent new money and refunding offerings brought forth a ready response from investors and the operation proved to be a marked success. Cash subscriptions to the new 4¾ year 1⅞% notes amounted to 4.4 times the $2.2 billion actually alloted by the Treasury while holders of no less than 93% of the obligations being refunded agreed to exchange them for the new recurities, a high rate of acceptance.

Despite these signs of investor interest, Federal obligations sold off in the wake of the allotment announcement. The new notes lost almost one-half the premium at which they had been selling on a when-issued basis, intermediate term obligations were down ¼ to ⅜ points and long-term bonds gave up similar amounts. These declines came in the wake of weakness earlier in the month so that in the two weeks ending May 17 most issues had suffered declines exceeding a full point. There are several reasons for the current downturn in Government securities. One source of pressure was selling of the new notes by speculators who were taking quick profits. This depressed the price of the new notes and the noncomitant rise in their yield inudced sales in other sections of the list. Of more fundamental importance is the fact that the Treasury has floated more than $15 billion of intermediate term securities in recent months. At the same time the volume of outstanding short-term obligations has been reduced, with a consequent decline in short-term money rates. In many cases, this has induced commercial banks, looking for better yields, to invest in longer term maturities thereby increasing the risk factor. These banks are now reluctant to add further to this type of investment, so that the market is somewhat glutted, a situation that will continue unless there is a reduction in the reserve requirements of the commercial banks.

The weakness in the market for Federal obligations has not as yet affected other fixed-income securities. Despite a heavy calendar of new offerings, corporate issues have held up well and the yield of an average of best-rated corporate bonds has remained at 2.87%, for two weeks running. Among tax-exempts, where new flotations have been at a near-record rate, greater price stability has been achieved thus far in May after the weakness that was evident the previous month. However, if the Government bond market—a reputed leader in setting price trends—should experience further weakness, then the corporate and municipal sectors of the list would be hard put to it to resist sympathetic declines.

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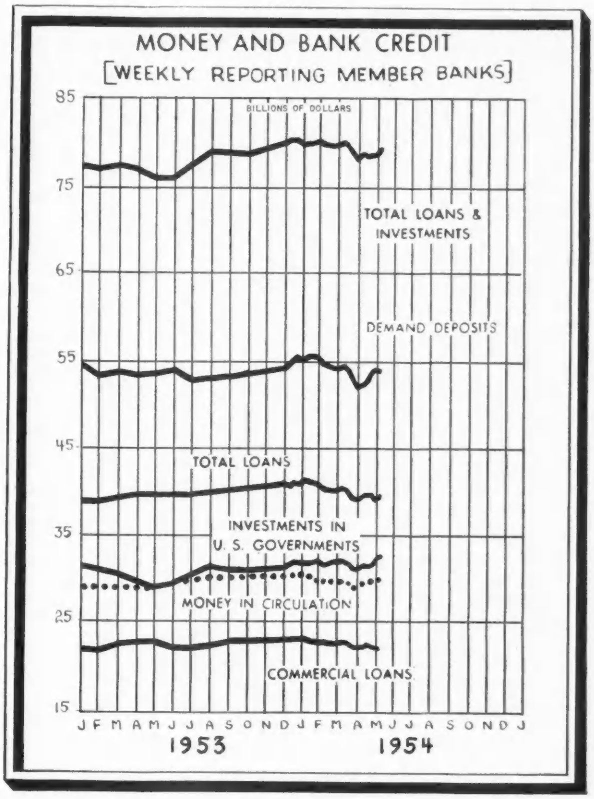
TRADE—Retail sales in the first half of May are running somewhat under the corresponding 1953 period, according to Dun & Bradstreet, which estimates that total dollar volume for the week ending Wednesday, May 12 was about 2% under the similar week of last year. Apparel sales remained high throughout the country while most household appliances continued to lag.

The Commerce Department finds that retail volume picked up last month and estimates that total sales, after seasonal adjustment, amounted to $14,285 million. This compares with $13,813 million in March and $14,280 million in April, 1953. All the major types of retail outlets chalked up gains in



April with general merchandise and automotive dealers in the forefront.

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INDUSTRY—Industrial production achieved stability in April and was holding steady in early May, the Federal Reserve has reported. The Board's Index of output was unchanged in April at 123% of the 1947-1949 average. There was a slight pick-up, last month, in production of primary metals and minerals while output of major consumer durable goods rose 3% to 124% of the base period. However ,this component was still 16% under its level of a year earlier. Production of nondurables stood at 113% of the base period in April, unchanged from the previous month. Textile and apparel output was down slightly while there was a small increase in paper and printing activity.

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COMMODITIES—The general run of commodities held steady in the week ending Tuesday, May 11, and the Bureau of Labor Statistics' comprehensive index of primary market prices

(Continued on following page)

Essential Statistics

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
MILITARY EXPENDITURES—$b (e)	Mar.	3.5	3.5	4.2	1.6
Cumulative from mid-1940	Mar.	544.2	540.7	492.4	13.8
FEDERAL GROSS DEBT—$b	May 12	271.0	271.1	265.7	55.2
MONEY SUPPLY—$b					
Demand Deposits—94 Centers	May 5	54.0	54.1	53.4	26.1
Currency in Circulation	May 12	29.8	29.8	29.8	10.7
BANK DEBITS—(rb3)**					
New York City—$b	Mar.	63.5	62.4	50.4	16.1
344 Other Centers—$b	Mar.	98.9	96.6	95.1	29.0
PERSONAL INCOME—$b (cd2)	Mar.	283	283	284	102
Salaries and Wages	Mar.	189	190	192	66
Proprietors' Incomes	Mar.	50	50	51	23
Interest and Dividends	Mar.	23	23	22	10
Transfer Payments	Mar.	16	15	14	3
(INCOME FROM AGRICULTURE)	Mar.	17	17	18	10
POPULATION—m (e) (cb)	Mar.	161.5	161.3	158.8	133.8
Non-Institutional, Age 14 & Over	Mar.	115.9	115.8	114.8	101.8
Civilian Labor Force	Mar.	63.8	63.7	63.1	55.6
Armed Forces	Mar.	3.4	3.4	3.4	1.6
unemployed	Mar.	3.7	3.7	1.7	3.8
Employed	Mar.	60.1	60.1	61.5	51.8
In Agriculture	Mar.	5.9	5.7	5.9	8.0
Non-Farm	Mar.	54.2	54.4	55.5	43.2
Weekly Hours	Mar.	41.1	41.0	41.3	42.0
EMPLOYEES, Non-Farm—m (lb)	Apr.	47.9	47.8	49.4	37.5
Government	Apr.	6.7	6.7	6.7	4.8
Trade	Apr.	10.4	10.3	10.4	7.9
Factory	Apr.	12.6	12.8	13.9	11.7
Weekly Hours	Apr.	39.0	39.5	40.8	40.4
Hourly Wage (cents)	Apr.	180.0	179.0	175.0	77.3
Weekly Wage ($)	Apr.	70.20	70.71	71.40	21.33
PRICES—Wholesale (lb2)	May 11	111.0	111.0	109.8	66.9
Retail (cd)	Feb.	208.9	209.5	207.8	116.2
COST OF LIVING (lb2)	Mar.	114.8	115.0	113.6	65.9
Food	Mar.	112.1	112.6	111.7	64.9
Clothing	Mar.	104.3	104.7	104.7	59.5
Rent	Mar.	128.0	127.9	121.7	89.7
RETAIL TRADE—$b**					
Retail Store Sales (cd)	Mar.	13.8	14.0	14.4	4.7
Durable Goods	Mar.	4.8	4.7	5.2	1.1
Non-Durable Goods	Mar.	9.0	9.2	9.2	3.6
Dep't Store Sales (mrb)	Mar.	0.79	0.82	0.87	0.34
Consumer Credit, End Mo. (rb)	Mar.	27.2	27.5	25.9	9.0
MANUFACTURERS'					
New Orders—$b (cd) Total**	Mar.	23.0	22.0	25.1	14.6
Durable Goods	Mar.	10.3	9.6	12.5	7.1
Non-Durable Goods	Mar.	12.7	12.4	12.6	7.5
Shipments—$b (cd)—Total**	Mar.	24.0	23.6	25.8	8.3
Durable Goods	Mar.	11.4	11.3	13.1	4.1
Non-Durable Goods	Mar.	12.6	12.3	12.6	4.2
BUSINESS INVENTORIES, End. Mo.**					
Total—$b (cd)	Mar.	80.0	80.4	78.3	28.6
Manufacturers'	Mar.	45.7	46.1	44.8	16.4
Wholesalers'	Mar.	11.8	11.9	11.5	4.1
Retailers'	Mar.	22.6	22.4	22.0	8.1
Dept. Store Stocks (mrb)	Mar.	2.4	2.4	2.4	1.1
BUSINESS ACTIVITY—1—pc	May 8	185.6	183.5	196.4	141.8
(M. W. S.)—1—np	May 8	230.7	228.1	239.7	146.5

PRESENT POSITION AND OUTLOOK

(Continued from page 297)
remained unchanged at 111.0% of the 1947-1949 average. At this level it was 1.1% above that of a year ago. Processed foods were somewhat higher in the latest week but this was counterbalanced by lower prices for farm products, including grains, livestock and eggs. Most industrial commodities remained unchanged although rubber, tin, and textiles declined.

The MWS Index of Raw Materials rose to 152.7 in the week ending May 14 from 152.3 the previous week. Corn, tin, wooltops and rubber were higher during the period while wheat, raw sugar, and silk were lower.

GROSS NATIONAL PRODUCT, the value of the nation's output of goods and services, fell to $357.8 billion, at annual rates, in the first quarter of 1954, a $5.7 billion decline from the previous quarter and $13.6 billion below the peak reached in the second quarter of 1953. Private domestic investment amounted to $46.8 billion in the latest quarter, or $11.7 billion under last year's peak. In this sector, inventories were being reduced at the rate of $4.8 billion a year, which contrasts with increasing inventories—at a $6.3 billion rate—in the second quarter of 1953. Personal consumption expenditures in the first quarter of this year came to $229.8 billion, at annual rates, only $0.6 billion under that of nine months earlier. Federal spending was down $5.4 billion while state and local disbursements were $2.5 billion higher.

* * *

NEW CONSTRUCTION activity expanded seasonally in April and expenditures for this purpose amounted to $2,795 million, 9.4% ahead of March and 1.3% above outlays in the corresponding 1953 month. Private construction was valued at $1,897 million in April, slightly above year-ago levels. Residential building was a bit under last year ,industrial building dipped 12.0% but this was counterbalanced by a 33.3% jump in spending for commercial construction. Public utilities spent 2.8% more than a year ago with telephone and telegraph companies achieving the best gain. Construction expenditure by public bodies was valued at $898 million in April, a 1.4% gain over last year. Expenditures for highway building jumped 25.0% while sewer and water projects were up 18.3%. In the first four months of this year, total construction expenditures came to $10,095 million, a

and Trends

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor*
INDUSTRIAL PROD.—la np (rb)	Apr.	123	123	136	93
Mining	Apr.	112	113	115	87
Durable Goods Mfr.	Apr.	135	135	155	99
Non-Durable Goods Mfr.	Apr.	113	113	121	89
CARLOADINGS—t—Total	May 8	648	648	765	933
Misc. Freight	May 8	338	342	382	379
Mdse. L. C. L.	May 8	62	62	70	66
Grain	May 8	46	47	40	43
ELEC. POWER Output (Kw.H.) m	May 8	8,438	8,390	8,039	3,266
SOFT COAL, Prod. (st) m	May 8	6.8	6.7	8.8	10.8
Cumulative from Jan. 1	May 8	129.7	122.9	158.3	44.6
Stocks, End Mo.	Mar.	72.0	75.2	70.2	61.8
PETROLEUM—(bbls.) m					
Crude Output, Daily	May 8	6.4	6.6	6.3	4.1
Gasoline Stocks	May 8	176	177	156	86
Fuel Oil Stocks	May 8	45	44	40	94
Heating Oil Stocks	May 8	64	61	63	55
LUMBER, Prod.—(bd. ft.) m	May 8	255	255	254	632
Stocks, End Mo. (bd. ft.) b	Mar.	9.2	9.2	8.1	7.9
STEEL INGOT PROD. (st) m	Apr.	7.0	7.3	9.5	7.0
Cumulative from Jan. 1	Apr.	29.3	22.3	38.5	74.7
ENGINEERING CONSTRUCTION AWARDS—$m (en)	May 13	344	494	253	94
Cumulative from Jan. 1	May 13	4,744	4,400	5,756	5,692
MISCELLANEOUS					
Paperboard, New Orders (st)t	May 8	238	251	292	165
Cigarettes, Domestic Sales—b	Mar.	32	27	34	17
Do., Cigars—m	Mar.	477	444	469	543
Do., Manufactured Tobacco (lbs.)m	Mar.	18	15	17	28

PRESENT POSITION AND OUTLOOK

1.6% gain over the January-April period of 1953.

* * *

UNEMPLOYMENT declined in April and the Census Bureau estimates that 3,465,000 people were out of work early in that month, down from 3,725,000 looking for jobs the previous month. The drop was seasonal in nature with employment increasing in agriculture, trade and construction but declining by 255,000 in manufacturing. In the latter group the number of workers in nondurable lines fell by 105,000, a seasonal reduction. Employment in durable goods shrank by 150,000 reflecting contraction in this sector of activity. The total number of persons with jobs stood at 60,598,000 in April, 498,000 over March but 630,000 under a year ago.

* * *

Manufacturers deliver 4,038 **FREIGHT CARS** in April, down from 4,823 in March and 6,839 in April, 1953, according to a joint report by the Association of American Railroads and the American Railway Car Institute. Only 909 new freight car orders were received in April, the smallest in two years. With shipments way above incoming orders, the order backlog on May 1 was down to 17,817 cars the lowest figure since January, 1950.

b—Billions. cb—Census Bureau. cd—Commerce Dept. cd2—Commerce Dept., seasonally adjusted monthly totals at annual rate, before taxes. cdlb—Commerce Dept. (1935-9—100), using Labor Bureau and other data. e—Estimated. en—Engineering News-Record. I—Seasonally adjusted index (1935-9—100). la—Seasonally adj. index (1947-9—100). lb—Labor Bureau. lb2—Labor Bureau (1947-9—100). lb3—Labor Bureau (1935-9—100). lt—Long tons. m—Millions. mpt—At mills, publishers and in transit. mrb—Magazine of Wall Street, using Federal Reserve Board Data. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb3—Federal Reserve Bank of N. Y.—1941 data is for 274 centers. st—Short tons. t—Thousands. *—1941; November, or week ended December 6. **—Seasonally adjusted.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEXES

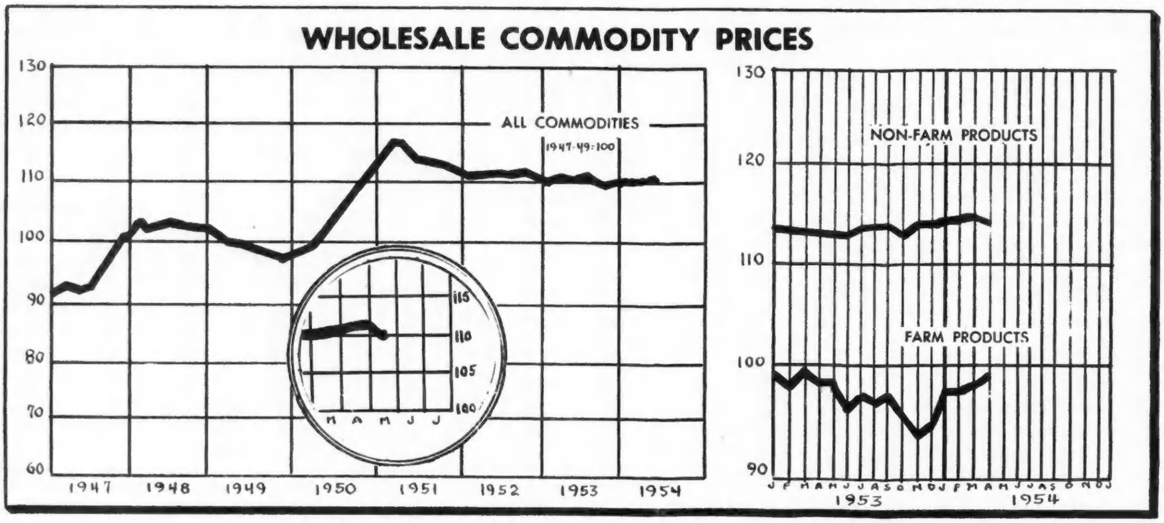
No. of Issues (1925 Cl.—100)	1953-'54 Range High	Low	1954 May 7	1954 May 14
300 COMBINED AVERAGE	217.4	177.2	214.4	217.4A
4 Agricultural Implements	263.3	179.0	205.9	207.6
10 Aircraft ('27 Cl.—100)	551.5	330.3	543.3	547.4
7 Airlines ('27 Cl.—100)	693.9	492.6	541.9	561.6
7 Amusements	110.0	76.4	108.2	110.0A
10 Automobile Accessories	289.4	213.8	245.9	248.2
10 Automobiles	49.4	38.4	38.8	40.8
3 Baking ('26 Cl.—100)	28.0	23.0	23.5	23.7
3 Business Machines	464.2	311.4	446.7	464.2A
2 Bus Lines ('26 Cl.—100)	270.9	170.2	261.6	270.9A
6 Chemicals	406.2	337.9	395.2	406.2A
3 Coal Mining	15.4	9.0	9.6	9.4
4 Communications	69.3	58.6	65.7	65.7
9 Construction	79.0	57.9	77.1	79.0A
7 Containers	603.3	456.9	593.5	603.3A
9 Copper & Brass	175.4	125.3	166.7	170.9
2 Dairy Products	112.4	82.3	112.4	111.4
5 Department Stores	63.3	54.6	62.8	63.3
5 Drug & Toilet Articles	275.4	203.8	268.3	275.4A
2 Finance Companies	482.5	341.8	482.5	470.6
2 Food Brands	206.1	185.0	204.2	206.1A
2 Food Stores	142.3	113.0	142.3	140.9
3 Furnishings	79.2	59.6	66.1	65.5
4 Gold Mining	760.0	502.3	587.7	592.7

(Nov. 14, 1936, Cl.—100)	High	Low	1954 May 7	1954 May 14
100 HIGH PRICED STOCKS	143.8	114.4	142.8	143.8A
100 LOW PRICED STOCKS	260.5	203.7	243.7	248.5
4 Investment Trusts	119.9	93.1	114.1	119.9A
3 Liquor ('27 Cl.—100)	967.8	811.1	814.3	848.6
11 Machinery	246.7	181.0	244.7	242.6
3 Mail Order	128.6	101.0	119.8	123.1
3 Meat Packing	101.7	78.7	86.6	88.3
10 Metals, Miscellaneous	284.5	198.4	255.3	259.3
4 Paper	590.6	394.9	581.4	590.6A
24 Petroleum	501.0	376.5	496.9	501.0A
22 Public Utilities	211.9	173.8	210.0	211.9A
8 Radio & TV ('27 Cl.—100)	36.9	27.6	30.1	30.1
8 Railroad Equipment	64.1	49.1	55.8	56.8
20 Railroads	53.2	41.8	47.7	48.1
3 Realty	59.7	42.3	58.7	59.7A
3 Shipbuilding	345.4	228.7	342.5	345.4A
3 Soft Drinks	433.3	339.0	433.3	433.3
11 Steel & Iron	152.0	122.8	149.4	152.0A
3 Sugar	59.8	45.9	50.9	51.9
2 Sulphur	698.6	525.5	677.1	698.6A
5 Textiles	162.2	101.3	106.4	112.4
3 Tires & Rubber	100.1	70.4	100.1	98.4
5 Tobacco	105.2	81.1	83.7	85.3
2 Variety Stores	319.5	274.4	277.2	277.2
16 Unclassified ('49 Cl.—100)	125.7	97.0	114.5	114.5

A—New High for 1953-'54.

Trend of Commodities

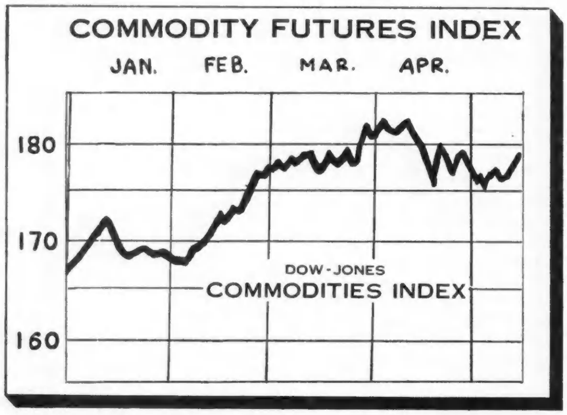
Commodity futures steadied in the two weeks ending May 17 and the Dow-Jones Commodity Futures Index managed a net gain of 1.06 points to close at 177.75. Grains were mixed with wheat futures off a bit. The July option lost 1½ cents during the fortnight to close at 194¼. The Government forecast that winter wheat would amounut to 707 million bushels while the Spring wheat crop, based on March planting intentions and average yields, is estimated at 223 million bushels. If these expectations are realized, this year's total crop would amount to 930 million bushels. Should consumption in the season beginning July 1 equal this year's estimated 861 million bushels, there would be a further addition in 1955 to this year's estimated 875 million bushel carryover. Plans are afoot to expand foreign sales by various barter and "give-away" programs but there is danger of arousing the enmity of competing countries if such devices are pushed too far. July corn was up 2¼ cents in the two weeks ending May 17 to close at 153½. Growers have placed more than 366 million bushels of corn in the Government loan through April 15 and further impoundings will be made before this year's program closes on May 31. Unfavorable weather has interfered with new crop preparations although this is expected to be no more than a minor factor. On the supply side there is pressure from Government sales which may increase further in view of the large CCC holdings in danger of spoilage. Soybeans have been decidedly soft in the period under review with the July option losing 32½ cents to close at 365½. Consumers are buying sparingly and the prospects for a large 1954 crop are receiving attention. Visible supply of beans is above a year ago despite lower output this season.



U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES
Spot Market Prices—1947-1949, equals 100

	Date May 17	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
22 Commodity Index	92.7	92.5	87.8	88.4	53.0
9 Foodstuffs	102.1	102.0	97.7	89.7	46.1
3 Raw Industrial	86.6	86.3	81.4	87.4	58.3

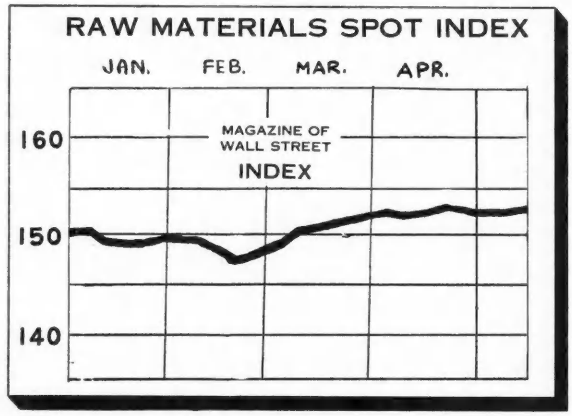
	Date May 17	2 Wks. Ago	3 Mos. Ago	1 Yr. Ago	Dec. 6 1941
5 Metals	93.3	93.1	81.0	97.6	54.6
4 Textiles	87.1	86.7	88.0	89.5	56.3
4 Fats & Oils	75.9	74.9	73.4	59.3	55.6



14 Raw Materials, 1923-25 Average equals 100

Aug. 26,1939—63.0 Dec. 6, 1941—85.0

	1953-'54	1952	1951	1945	1941	1939	1938	1937
High	162.2	181.2	215.4	111.7	88.9	67.9	57.7	86.6
Low	147.8	160.0	176.4	98.6	58.2	48.9	47.3	54.6



Average 1924-26 equals 100

	1953-'54	1952	1951	1945	1941	1939	1938	1937
High	181.9	192.5	214.5	95.8	74.3	78.3	65.8	93.8
Low	153.8	168.3	174.8	83.6	58.7	61.6	57.5	64.7

Keeping Abreast of Industrial and Company News

Guests at a housewarming party for the new "Westerner" the latest pre-engineered model of United States Steel Homes, Inc., were given the opportunity to inspect the first completely furnished six-room house ever built in a TV studio. The occasion was linked to the **United States Steel Corp.'s**, the parent company, bi-weekly TV drama hour, during the course of which the "Westerner" also made its television debut before an estimated 15 million television viewers.

Recent completion of expansion of its Hopewell, Va., nitrogen plant increases **Allied Chemical & Dye Corp.'s** anhydrous ammonia production by 50,000 tons per year. The new project, involving changes in equipment and installation of some new facilities, also increased capacity for converting ammonia to nitrogen solutions, and along with the company's two other nitrogen plants, located in Ohio and Nebraska puts the Nitrogen Division in an advantageous position to fill the growing needs of industry and agriculture in the south, east and midwest.

A new super-strength conveyor belt capable of carrying hundreds of tons of coal per hour a distance of three miles underground has been developed by **United States Rubber Co.** The belt utilizes a new type of cellulosic yarn chemically treated to give it exceptional strength that is said to be three times stronger than the strongest rayon belt fabric and three and one-half times stronger than the strongest cotton duck used in belts today. The company believes development of this belt marks a significant advance for coal mining, iron and copper mining and dam construction from the standpoint of cost reduction and more efficient operation.

In keeping with its program of diversifying activities, **American Car & Foundry Co.**, has contracted to purchase the W-K-M Company of Houston, Texas, manufacturers of high pressure steel valves for oil field and pipeline equipment. W-K-M will operate as a wholly-owned subsidiary of ACF, and continue to maintain a sales office in Los Angeles and an export office in New York.

According to present plans **P. Lorillard Co.**, makers of Old Gold and Kent cigarettes will break ground within the next month for its $13 million Greensboro, N. C., plant. The new building will occupy close to 12 acres and will include a research laboratory.

Now that Hydra-Matic transmission manufacture is firmly established at the Willow Run plant, **General Motors Corp.** will use the Livonia site for a new Fisher Body fabricating plant.

The Government, through General Services Administration has signed contracts with **E. I. duPont deNemours & Co.**, and Titanium Metals Corp., jointly owned by **National Lead Co.**, and **Allegheny Ludlum Steel Corp.**, for the purchase of 1,850,000 pounds of metal in its titanium acquisition program. Under the contracts, duPont will deliver up to 1,-250,000 pounds and Titanium Metals up to 600,000 pounds by June 30, at price prevailing at time of delivery. The Government's program provides for the purchase of up to 4,000 tons of titanium sponge for eventual resale to builders of aircraft and other military equipment.

By early summer of 1956, **American Airlines, Inc.**, expects to be utilizing an $8 million maintenance base which it will construct at New York's International Airport. Plans provide for office space, a hangar for 14 airplanes, and parking space for both planes and autos. The building will be located on a 76-acre site the company has leased from the Port of New York Authority for a period of 22 years.

The first electronic flight simulator built to "fly" like a DC-6B has just been completed by the **Curtiss-Wright Corp.**, for delivery to **United Airlines** at Chicago. Designed to reproduce electronically all flight characteristics of the 50-ton DC-6B ships, this simulator will soon be followed by another for use by United Air Lines at Denver. The company now has two Convair simulators in service at its flight training centers in Chicago and Denver. In addition to standard procedures, these devices enable United to provide advanced types of pilot training seldom undertaken in actual aircraft.

A landing craft powered by a gas turbine has been readied for fleet trial at the Annapolis naval engineering experiment station. The LCVP—landing craft vehicle for personnel—was built by **Boeing Airplane Corp.**, and made its test runs in Chesapeake Bay. The craft, rated at 160 horsepower, has a device to limit turbine speed in the event its propeller clears the water while retracting from a beachhead.

Collapsible bulk fuel tanks so light they can be carried by two men are being tested for use in speeding up super highway construction by **Goodyear Tire & Rubber Co.** These portable tanks with capacities up to 10,000 gallons are mobile "tank farms" that can move along with highway building equipment. They are made of nylon fabric and coated with petroleum-resistant synthetic rubber, making them serviceable in all kinds of weather. Originally developed for military use, it is believed they can be adopted anywhere on land or sea where portability and storage space are factors.

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. Give all necessary facts, but be brief.
2. Confine your requests to *three listed securities* at reasonable intervals.
3. No inquiry will be answered which does not enclose *stamped, self-addressed envelope.*
4. No inquiry will be answered which is mailed in our postpaid reply envelope.
5. Special rates upon request for those requiring additional service.

Glidden Company

"Please advise me on earnings and prospects for Glidden Company, and whether I should hold or sell the stock in view of the present slight recession, taking into account purchase price of the stock at $24.00 per share."

C. H., Indianapolis, Ind.

Glidden Company's business is widely diversified with food products such as margarine, salad and cooking oils, condiments contributing 48% of sales; paints 25%; vegetable oils 16%; chemicals and pigments 7%; naval stores 4%.

Profit margin in the food division is narrow as competition is keen. Vegetable oil prices are highly volatile and this makes for heavy inventory fluctuations. The expansion into fine chemicals lends a moderate over-all growth potential to the company.

Net profit after taxes and all charges for the fiscal year ended October 31, 1953 was $7,109,272 compared to $6,948,805 in 1952. This was equal to $3.02 per share on the 2,290,794 shares outstanding at the close of the year October 31, 1953, and compares with 1952 fiscal year when earnings were equal to $3.04 per share on 2,284,739 shares outstanding.

Sales volume in 1953 showed an increase of 4% to total $211,758,-522, an increase of $6,645,218 from the previous year.

Net sales for the 3 months to January 31, 1954 were $47,227,-177 and net profit $1,306,141, equal to 57¢ per common share based on 2,290,794 shares outstanding. This compares with the same quarter in the preceding year when sales were $47,507,347 and net profit $1,392,317, equal to 61¢ per share on the same number of shares outstanding. Consolidated balance sheet as of January 31, 1954 showed total current assets of $66,336,848, and current liabilities of $20,273,683, leaving net current assets of $46,063,165. The working capital position indicates a good ratio of assets to liabilities.

Dividends in 1953 totaled $2.00 per share and 50¢ quarterly is the current rate, and this dividend is expected to continue.

The shares are selling at a little over 10 times recent earnings and yield about 6% at current market.

The outlook for the company over coming months appears satisfactory. The diversified operations of the company and new product development add appeal and so we recommend retention.

Owens-Illinois Glass Company

"I am only interested in investment-grade stocks and would like to receive late data on Owens-Illinois Glass Company. Please include dividend payments as I am particularly interested in securing a good income from my securities, consistent with high quality."

P. R., Tucson, Arizona

Owens-Illinois Glass Co. is an investment-grade stock yielding at current market of 81 approximately 5%.

For the 12 months ended March 31, 1954, earnings amounted to $15,156,696 of $4.96 per share, and this compares with earnings of $16,621,421 or $5.44 per share, for the 12 months ended March 31, 1953.

Net sales and other operating revenues were $330,207,577 in the most recent 12 months, compared with $305,191,458 in the preceding period. The provision for Federal and other income taxes amounted to $16,664,527, or $5.45 per share on the 3,056,874 common shares outstanding, compared with $18,792,903 or $6.15 per share in the preceding 12 months.

The increased dollar volume of sales in the past 12 months reflects a moderate price increase put into effect in April 1953 to partially offset prior cost increases. Since then, costs for materials and labor have gone still higher and this expense, together with a drop in the company's television bulb business, considerable expenditures for research in connection with color division, and a loss on the sale of the Sayreville, New Jersey plant, have reduced earnings. Early in April 1954 the company announced a price increase of approximately 5% on its glass containers. Demand over the longer-term indicates an upward trend. The company has made additions to its Vineland, New Jersey, and Waco, Texas plants and is in the process of adding to its Bridgeton, New Jersey plant and is building a new technical center in Toledo for the development of new products, processes and methods.

To provide for present and future capital expenditures and to add to its working capital, the company has arranged a 30-year loan of $40 million at 3⅛% interest. This, with the present $10 million loan due in 1968, brings the company's total debt to $50 million. All other loans will be retired.

Dividends in 1953 totaled $4.00 per share and $1.00 quarterly has been paid thus far in the current

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Test of Corporate Management Here Now

(*Continued from page* 275)

possible should not be expected of it. In a period of genuine recession in an industry, for example, most companies, regardless of the quality of management, will be subject to recessive influences. On the other hand, even in such a circumstance, it is worthwhile comparing the results between the companies in the industry. It will be found that results can vary quite widely despite a generally uniform trend. For example, even in the lowly textile group, some companies stand out as being consistently reliable earners: to mention several, J. P. Stevens, Cannon Mills and Lowenstein (M) and Sons. Each of these companies possesses an exceptionally strong and progressive management. Certainly these companies have been meeting the severe test through which the textile industry is passing in good style. Similar comparisons can be found in practically all other industries.

Essentials in Management

The subject of corporate management is too vast to be dealt comprehensively in such a brief survey as this one. However, there are some essentials that are well worth remembering. In the first place, management to-day is purely professional and has more or less displaced ownership as the decisive factor in corporate direction. The three principal functions of management under modern conditions are:

1) *planning objectives and determining future policies and the necessary course of action to be taken under varying circumstances.*

2) *organizing all the resources of the company-physica', financial and human—to achieve the greatest efficiency.*

3) *execution of plans and constant supervision.*

The most effective corporation management, in effect works for the corporation rather than for itself. That is to say, the typical modern executive is less interested in personal aggrandizement than he is in doing his share to produce effective direction for the com-

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Test of Corporate Management Here Now

(*Continued from page* 303)

pany's business.

One of the best tests of management today is the ability to bring in "new blood" to the top echelons. Where the top has tended to become ossified and too long in power without a demonstration of real performance, the chances are that the affairs of the company will deteriorate. One of the valid tests of a company, and one that the investor can employ with profit, is to determine whether any changes at the top have been made during a prolonged period of difficulty. If management is retained despite an obviously poor record, investors have cause for concern.

The actual earnings of corporations during the first quarter and the period directly ahead is of great importance since it will measure the ability of corporations to meet the tests of an increasingly competitive period. Decline of earnings to an extent imperiling continuation of established rates of dividend payments is a signal that should not be ignored. In the table, the relative position of the companies is shown with respect to their dividend coverage in the post-war period. This is an important guide but should be considered in relation to the financial position and prospects for each company separately. —END

What to Do About Problem Stocks?

(*Continued from page* 281)

are believed to have been improved by the rapid rise in population and by the growing numbers of elderly persons in retirement. These two age groups —babies and youngsters as well as elderly persons—are the largest consumers of medicines.

The stock appears to have taken into account difficulties encountered in the adjustment to excessive supplies of antibiotics. Earnings show promise of holding sufficiently above the $1.40 annual dividend requirements to afford protection for distributions to stockholders. For moderate return on capital investment and long range growth, the stock has appeal, especially since the major problems of expansion seem to have been solved.

PENNSYLVANIA RAILROAD: Two principal handicaps, aside from the usual difficulties experienced by railroad managements, have retarded progress for Pennsy. High terminal charges and short hauls have tended to boost operating costs of eastern carriers more rapidly than those of mid-western and southwestern roads which have gained more from rate increases than their competitors in the Eastern District. Slow adoption of dieselization added to Pennsy's difficulties. Management was reluctant to abandon steam locomotives because the road handled such large tonnages of coal.

High costs of hard fuel impelled consumers—even railroads —to turn to oil, however, and economies obtained by diesel locomotives have enabled the road to counteract rising operating costs in recent years. Still greater progress in this direction remains to be realized. Over the longer term, a successful turbine engine utilizing coal probably would prove even more effective in combatting rising costs.

Another handicap that Pennsy has felt is a large volume of unprofitable passenger traffic. All railroads have encountered difficulties of developing profitable operating conditions for passenger traffic. This railroad serves important industrial areas and seems to offer potentialities for improvement in earning power. The stock has been under pressure for months in reflecting pessimism over 1954 results. A recovery in industrial activity in the last half of the year and additional economies from dieselization would encourage hope of a turn for the better. In any event, the stock seems to have stabilized. The stock is not suited to those dependent on income.

PULLMAN, INC.: A prospect of reduced earnings this year in Pullman's case may be traced to a slackening in railroad demand for freight cars and to unsatisfactory operations in the Trailmobile division. The company announced early in the year that orders on hand in the Pullman-Standard division were being rapidly reduced and that production of freight cars would be completed in the second quarter. Additional orders on a reduced scale have been received, but the outlook is for curtailed production of railroad cars this year. Passenger car output has been improving, but ordinarily activity along this line is less important than freight car business.

Production of trucks in the Trailmobile division has been cut back, and the outlook for profitable operations is regarded as none too assuring unless economic conditions improve in coming months.

The company's bright spot is the M. W. Kellogg division, which promises to keep busy on new petroleum refineries and chemical plants. Unfilled orders call for a sustained volume of construction work for another year or two.

Because the company has maintained a strong cash position and no longer needs excessive amounts of working capital for operation of sleeping car services it would seem possible for management to disburse a relatively large percentage of earnings. With the benefit of tax relief, net profit this year may compare reasonably satisfactorily with the 1953 results of $4.51 a share. Possibility of a repetition of a year-end extra of $1 a share seems to have contributed to recent demand for the stock. Retention for generous income appears a logical recommendation.

UNDERWOOD CORP.: A decision by management to expand and diversify operations to keep pace with competition in office machines posed a serious problem for Underwood at a time when business uncertainties contributed to a drop in orders for typewriters. Reduced volume accentuated the rise in manufacturing costs caused by boosts in wage rates. Necessity for borrowing through a credit standby arrangement to finance the expansion program indicated a tightening in working capital sources.

Abnormal expenditures involved in starting up production in the electronic computer division and in the punch card division and of developing new models made heavy demands on capital. Some price increases were adopted to meet higher manufacturing costs, but the volume of new orders has been disappointing.

Prospects are regarded as only fair for the first half of the year, and earnings may not register much improvement over the 1953 showing unless operating economies can be achieved more rapidly than so far indicated. As a consequence, investors must feel some doubt over an increase in the 25-cent quarterly dividend. Considerable time may be required to capitalize on the expansion and diversification and to enlarge earnings. However, the management is highly experienced and is making every effort to counter recent problems. In consideration of the long-time good record the stock may be held at present depressed levels. —END

1954 Outlook for Aircraft-Airline Companies

(*Continued from page* 286)

taper off to the $6 billion level by 1957, part of this slack will be taken up by the major frame and engine producers by a reduction in sub-contracting.

The Administration has narrowed the aircraft production base by placing many non-aircraft producers—auto companies, farm equipment producers, etc.—on a standby basis, thus sustaining output of the primary aircraft producers. Russian technology is receiving a higher rating, and this is sure to act as a spur on American research, development and production.

THE AIRLINE COMPANIES

For the second year in a row, 1953 was another billion dollar year for United States scheduled airlines. Passenger revenues of the domestic trunk airlines, amounting to approximately $782 million, were up by roughly 16% from $671 million for 1952. Cargo revenues increased about 12%, or from $41 million for the previous year to $46 million last year. Adding $35.8 million for carrying the mail and another $21 million in other revenue, part of which represents profits from disposal of equipment, the domestic trunk lines in 1953 grossed approximately $886 million in operating revenues.

The overseas or international U.S. scheduled airlines in 1953 had passenger revenues of about $234.5 million, a gain of something like 22% over the 1952 total, and together with air cargo, mail, and other revenues, these lines grossed last year approximately $338 million, while the local service and insular territorial airlines' operating revenues, totaling approximately $55 million, brought the year's grand total to something like $1,278,000,000.

Compared to the volume of business as recently as four years ago, the 1953 total operating revenues are somewhat astronomical. This is especially true of the domestic trunk airlines, which, in the three years from the end of 1950 have recorded an increase in passenger revenues of from $430 million to about $782 million for 1953, a gain of $352 million, or 82%. By almost any standard this is a phenomenal growth. It is further graphically depicted by the fact that last year domestic and American flag international scheduled airlines carried more than 31

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1954 Outlook for Aircraft-Airline Companies

(*Continued from page* 305)

million passengers over more than 18 billion passenger miles, representing gains of 14% and 16% respectively over 1952.

Operating Results in 1953

Despite these showings, there isn't much ground on which to base great enthusiasm over last year's profits of the trunk airlines or their immediate prospects. American Airlines, to cite one example, grossed over $208 million in operating revenues, or $21 million more than it showed for 1952. However, operating expenses increased to $162 million, a jump of $18.6 million, As a result, net income for the year was held to $13.4 million, or $1.86 a share, as compared with 1952's net of $12.5 million, equal to $1.72 a share for the common stock.

The experiences of other lines last year were similar, more or less, to American Airlines. There were several exceptions, notably Capital Airlines whose 1953 net increased to $2.10 a share from $1.80 for the preceding year. Another exception is National Airlines which, aided by gains on sale of capital assets, was able to show net equal to $3.99 a share for its fiscal year ended June 30, 1953, and $5.36 a share for the calendar year ended Dec. 31, last. Net operating revenue for the latter period totaled $3.4 million which was almost three-quarters of a million dollars more than for the 1952 calendar year. Eastern Air Lines also was moderately helped by realizing capital gains on equipment disposal, as was also Pan American World Airways, although the latter made an outstanding showing for 1953 with net income rising to $10.8 million, or $1.77 a share, as compared with $6.6 million, or $1.09 a share for the previous year. Contributing to this showing was the company's ability, notwithstanding increased costs of material and labor, to cut costs per available ton-mile 6.2%, or from 45.2 cents to 42.4 cents.

Rising costs is something the airlines have been wrestling with over the last three years. In view of the diminishing differential between operating revenues and expenses there arises the question as to how long the present economy and efficiency of air transportation can be offered the public without an upward revision of rates. Some are of the opinion that there is plenty of leeway for higher fares, citing the fact that first class plane fares are below first class rail rates between most points. There are some who think that coach fares should be boosted, advocating also the elimination of round-trip discounts on first class flights, and heavier penalties upon purchasers of plane tickets who fail to show up at flight time and neglect to cancel their reservations.

The Low-fare Air-coach Problem

Advocates of higher fares on first class or coach flights, or both, have to reckon, of course, with the Civil Aeronautics Board. In a speech made in April, 1953, CAB Member Adams said that the industry "should now enter that stage of our air transport development wherein we make reduced-fare services available on an ever-increasing scale, looking toward the time when our present 20-to-80 ratio is reversed, with low-fare air-coach passengers becoming the 80% rather than the 20%." Many of the airlines are not in accord with this way of thinking. Some would like to hold coach to first class service to a ratio of 20%, although several lines have already gone beyond this. Among these are National at 52%, Trans World at 43%, Northwest at 40%, and Eastern at 28%. Some of the companies are going to make stronger bids to attract coach class patronage, recognizing that there is a good market for low-cost service. The big question is how far they can go in this direction and still maintain self-sufficiency without increasing first class service in direct proportion.

Eastern Air Lines has already moved to convert more than 50% of its trunkline service into coach operations. It is making this changeover because it believes the airlines will have to adjust their "pattern of service" in keeping with the inevitable over-all readjustment in the nation's economy. In other words, it believes it is poor judgment to hike fares when airlines are feeling the effects of a slowing down of general business. United Air Lines, while expanding first class service this Spring, also increased its number of coach flights, doubling the company's air coach capacity of a year ago.

Serious Problems Created in Establishing New Rates

Which other lines will increase coach service and which will file for higher rates remains to be seen. The problems with which most of the companies are faced are evidently not easily or quickly solved. Raising rates for first class flights might result in driving a good percentage of heretofore first class flight patrons over to coach service and boosting coach fares could result in loss of revenue from those who have been attracted to air travel by the present fare schedules. In the meantime, the airlines are not only burdened by high operating costs, but are paying much higher prices for new planes necessitating higher depreciation chargeoffs, a situation that adds to the paring of profit margins.

Moreover, as a result of moves on the part of the Post Office Department, forcing CAB last April to place all domestic trunk airlines on an "open rate" status, pending a complete investigation of the service mail rate structure, the status of the airlines future airmail revenues are made somewhat uncertain. Since the beginning of the experiment last October when the trunk lines started to carry surface, or regular 3 cent mail, the Post Office has made it plain that it is not satisfied as to the rates it is paying, and has been advocating an over-all rate cut. In line with this stand, it declared its intention to ask for legislation giving it the power to negotiate air mail contracts with any carrier, including the certificated passenger or the all-cargo lines, at the lowest rates it can obtain.

The uncertainties underlying the immediate earnings prospects of the trunk airlines is reflected in current market prices of their shares, all of which are presently selling at or close to 1953-54 low levels. How the companies will fare in the current year will depend upon their ability to maintain load factors at fairly substantial levels. However, the modest dividends paid by the dividend-paying companies last year should continue. —END

A Study in Low-Priced Stocks

(*Continued from page* 290)

the index to 114.4 in September. By the end of that year the index had recovered to 123.4, and has since surpassed that mark, reaching 141.6 in the first week of May, 1954.

Divergence in the price movements of low-priced and high-priced stocks in these recent months tells its own story, the gist of which is investors, in growing number, are concentrating their interest in the higher-priced issues. These are the shares that are generally rated as defensive stocks or considered to have good growth posibilities; stocks that are reasonably certain to show satisfactory earnings in an era of keen competition.

Such stocks are currently in demand, reflecting the changing character of the stock market that has been taking place within recent years as speculative activity in the marginal or secondary-speculative stocks dwindled with investors exercising greater discrimination in selecting stocks for possible market gains or as investments for income and potential growth. Moreover, the underlying strength in many of the sounder issues has been materially increased owing to the fact that sizeable blocks are held in the portfolios of institutional buyers -insurance companies, investment trusts, pension funds, and charitable, educational and other institutions. This type of buying, more or less on a "dollar averaging" plan, has increased materially in the postwar years.

Hazards in Low-Priced Issues

The experienced investor has come to a better knowledge of the hazards of speculating in low-priced stocks. He has learned that while some issues in this category have proved substantially profitable on occasion, it is difficult to separate the chaff from the wheat. In attempting to make a profit in such issues he is fully aware he runs the risk of being "hung up" for years with an unprofitable venture that becomes more costly by depriving him of the opportunity to employ his "frozen" funds in more solid issues.

Full realization of these facts is particularly essential at this time when the successful, firmly established companies in the various industries are preparing to meet stiffer competition. This puts the marginal class at a disadvantage because of their lack of diversification, relatively high operating costs or lack of adequate finances, or a combination of any two or three of these factors. Under such circumstances, many of these companies are almost certain to descend to their normal state, one of poor or uncertain earnings with prices of their shares dropping to levels far under former peaks. Investors, lacking experience in issues of marginal companies, should bear in mind that stocks of this caliber must have a high level of general prosperity and what amounts to a "roaring" bull market to attract widespread speculation of a sustained character in order to advance appreciably in market price. Neither of these requisites are present now or appear to be in the making, in view of the consistent downtrend in earnings of many companies in the marginal or secondary-speculative group.

At a time like this, therefore, investors holding such issues would be well advised to review their positions to determine what course of action should be followed; that is, whether there appears to be sufficient promise for the company to warrant retention of its shares, or if judgment justifies liquidating one's holdings. In this connection, appraisal of marginal companies should weigh the character of industries they represent, whether the business is emphatically cyclical that spells normally high operating costs and whether, through husbanding of earnings in the "fat" years, they have been able to strengthen their finances and plow back earnings to modernize plants and raise operating efficiency. Some low-priced stocks, of course, are sound investments as they represent split-ups of highly successful companies.

As a practical aid to our readers, we have prepared a list of 100 low-priced stocks, selected because of their market activity and which we believe are widely held by the public. This compilation gives data on earnings and dividends on these issues for 1953, as well as price ranges for that year and 1954 to date. We have also rated the issues in the list as follows: (F) Favorable outlook. Stocks in this group are so rated because of specific influences relating either to company or industry developments that could have a favorable bearing on earnings or growth. (H) Hold temporarily. Stocks in this group are issues about which there is some uncertainty as to sales and earnings trends, but which appear to be worth retaining for possible improvement. (U) Most of the companies in this group either have consistently poor earnings records or are subject to such negative factors justifying doubt as to their ability to improve marketwise. —END

Prospects for Three Leading Dairy Companies

(*Continued from page* 293)

and its line of salad dressings and many other products. National Dairy also has a line of industrial products produced for the use of other food manufacturers, such as bakers, soup makers, and confectioners. At its field laboratory and experimental farms, its Consolidated Products division has developed a fine line of animal and poultry feeds produced from milk by-products and its Sheffield Chemical division produces 30 products derived from milk for the use of the pharmaceutical, chemical, food and other industries.

To keep pace with the steady growth of its business National Dairy has consistently expanded its facilities and to maintain and extend its service to this growing market it has, like Borden and Beatrice Foods, steadily improved its products in quality, variety, appearance, taste appeal and packaging. This year, National Dairy has appropriated $36 million for new plants, improvements and replacements, the largest capital expenditure in any one year in its history, and extending the expansion which in the nine years since the close of 1944 has increased net property and plant value by more than 100 per cent, or from $84.9 million to $176.3 million at the close of 1953. At the latter date, cash and marketable securities of more than $82.5 million constituted more than one-third of total current assets of $240.6 million which exceeded total current liabilities of $60.3 million by $180.3 million.

Closely paralleling National Dairy's growth has been that of the Borden Co., whose net property and plant value has grown from $64.8 million at the end of 1944, to $118.5 million at the beginning of 1954. On the same date, cash and marketable securities of $52.8 million fell just short of equaling one-third of total current assets of $162.8 million, as against total current liabilities of $43.2 million, indicating working capital of $119.5 million. Although Beatrice Foods is the smallest of the three companies under comparison, its rate of growth has been equally rapid in proportion. In less than nine years net sales have more than doubled, and net property and plant account has grown from $12.2 million to $30.5 million as of February 28, this year. Its total current assets of $34.5 million, including $11 million cash, exceeded total current liabilities of $7.1 million by $27.4 million.

All three companies have long and unbroken dividend records. Beatrice Foods has paid dividends on its common stock in each of the last 20 years. The current distribution, maintained since 1952, is at an annual rate of $2.25 a share which yields on present market price of 46 for the shares 4.8%. National Dairy Products inaugurated dividend payments back in 1924, and continued distributions ever since. Current rate of payment is $3 a share annually which on the prevailing price of 72 for the stock yields 4.1%. The Borden Co. has never failed to pay dividends on its shares in any of the last 55 years. Payments in 1953 amounted to $2.80 a share, including a year-end extra of $1. Beginning with the first quarter of 1954, the stock was placed on a 60 cents a share quarterly rate, or $2.40 a share annually. On this basis, the stock currently selling at 61 yields 3.9%, although it is reasonable to anticipate an extra distribution at 1954 year-end, especially in view of last year's earnings and the better 1954 outlook. Higher dividends could also be paid on Beatrice and National Dairy which, of course, would raise the yields on these issues. —END

Answers to Inquiries

(*Continued from page* 302)

year.

The company is the largest domestic manufacturer of glass bottles and other types of glass containers. The company's ⅓ interest in Owens-Corning Fibreglass, producer of fibrous glass insulating, filtering and textiles materials and the substantial stock holdings in Robert Gair Co., paper container maker, enhances growth prospects.

Square D Company

"Please indicate the nature of Square D Company's business and submit recent earnings, expansion program and dividend payments."

N. P., Washington, D. C.

The Square D Company manufactures electrical devices and supplies for widely diverse uses,

(*Please turn to page* 310)

In Next Issue

1954 Appraisal of Public Utilities Outlook

Answers to Inquiries

(*Continued from page* CJR)

sold principally to industrial plants and utilities.

Sales volume for the fiscal year ended December 31, 1953 was $58,966,000 compared with $55,528,000 for 1952. Net profit for 1953 was $4,135,000, equal to $3.01 per common share, compared with $4,486,000 or $3.26 per share in the previous year. While sales volume increased 6%, net profit declined 8%. The rise in labor costs accounted for the increased cost of operation in 1953. This amounted to 41.6¢ for every dollar on income in 1953, as compared with 37.5¢ per dollar for 1952. Fringe benefits for all company employees totaled more than $4.5 million in 1952.

The company's post-war expansion program has more than doubled its floor space since World War II.

Working capital at the end of 1953 was $19,106,000 and book value per share of stock was $19.79.

Expanded productive capacity and new products are expected to maintain sales over the near-term at a satisfactory rate.

First-quarter 1954 earnings rose 32% over the year earlier period as a result of the elimination of the excess profits tax. Consolidated net profit in the first three months was $1,296,351, or 94¢ a share, compared with $983,612, or 71¢, in the year-ago quarter.

Dividends including extras totaled $2.05 per share in 1953 and 35¢ quarterly has been paid thus far in the current year. The expiration of excess profits taxes will aid the company's net this year.

While the stock is speculative, the yield is excellent and prospects over coming months appear satisfactory.

James Lees & Sons Company

"You have mentioned in your magazine that the carpet industry experienced a slump in the past year and as I am particularly interested in results of James Lees & Sons Co. please advise on recent earnings, sales volume and prospects over coming months."

E. A., Birmingham, Ala.

Net sales of James Lees & Sons Company for 1953 amounted to $60,293,280, a decrease of 7% from the $65,199,928 recorded in 1952. While sales for the company's regular products in the carpet field were approximately the same as in 1952, the decline in sales last year represented a lack of defense business.

Earnings after taxes for 1953 were $3,175,071, equal after allowance for preferred dividend requirements, to $3.76 per share of common stock outstanding. This compares with 1952 earnings of $4.55 per share.

Dividends paid for 1953 totaled $2.00 a share on the common stock.

Competitive conditions in the carpet industry last year were increasingly keen and the industry has been in a buyer's market for several years. The recent reduction in inventories has improved the industry's position.

Net sales and earnings for the first quarter of 1954 were off sharply. Net sales were $15,421,228 and net profit $607,764, equal to 71¢ per share and this compares with first quarter of 1953 net sales of $18,020,860, net profit of $934,728, equal to $1.11 per share

Operating results for the first half of 1954 are expected to be somewhat less than the first 6 months of 1953 but the 50¢ quarterly dividend is expected to be covered by a fair margin. The company is considered a low-cost producer but the nature of the carpet industry makes the stock speculative. —END

America and Her "Allies"

(*Continued from page* 270)

foreign aid is becoming oppressive to the American taxpayer. He feels that he has done all he can for Europe and that the nations which have been receiving so much aid from us should now do more to help themselves. He realizes that the United States is going through a period of adjustment and that the greatest care should be taken to maintain our economic stability but he feels that this will be more difficult to accomplish if we become too much involved in foreign financial commitments.

He also feels, in a world where he cannot find consistently dependable allies, except among some small nations, that we should devote the maximum amount possible to expanding our defenses at home. This can easily entail a radical departure by the govern-

ment from its recent desire for more conservatism in military expenditures for home purposes. Under these conditions, it is by no means inconceivable that budgetary requirements for defense may be increased rather than decreased. This may not appear in the new budget, which is almost ready for passage by Congress but Congress can move quickly to order new expenditures if a real crisis occurs. The difference would be that the main consideration would be the security of the United States and that less emphasis would be given to the support of our allies. —END

1954 Outlook for Tire Companies

(*Editor's Note: This review is part of No.* 8 *of our Special Studies of Major Industries, the first section of which appeared in the May* 15 *issue of The Magazine.*)

In the case of tire manufacturers, generalities are permissible to some extent, for the industry's problem this year is applicable to all manufacturers in varying degrees. Actually, the industry faces the prospect of a drop in motor car output with considerable reassurance, because original equipment business is not nearly so important from a profit viewpoint as replacement sales. All indications point to larger volume of consumer demand for replacement tires this year. Mechanization has been carried forward to such an extent that manufacturing costs have been fairly well controlled. The outstanding success of man-made rubber has gone far toward eliminating disturbing price fluctuations of raw materials. Moreover, from a financial standpoint the elimination of excess profits taxes is a boon that promises to help manufacturers sustain earnings.

With more cars on the road this year, optimists are confident that replacement demand may compare favorably with the record high reached in 1953. Even allowing for the fact that tires of better quality are being made and that replacement business has been showing a long-term downtrend, important progress has been made in educating the public to demand highest priced tires—puncture proof styles and long-wearing types. Although the industry has taken the precaution of offering second grade tires, such as were used before the war to meet keen competitive conditions, consumer preference has been directed toward best grade casings. Industry officials are counting on prolongation of this trend so long as disposable income holds at a high level.

Construction of new highways and turnpikes provides a strong inducement for motorists to travel on their vacations. Motoring has gained steadily in popularity since the war. Moreover, utilization of automobiles for business is steadily growing. Tire usage is climbing to new heights from year to year. Despite the fact that greater wearability has been built into modern casings, the number of tires consumed on the road continues to show a strong uptrend. Even if production this year should drop moderately in reflecting reduced original equipment needs, major manufacturers seem destined to fare well.

Aside from tire prospects, the outlook for rubber manufacturers is quite satisfactory. Several companies have diversified activities to include production of plastics and other chemical products, while others have placed reliance to some extent on foam rubber items and other manufactured goods. Although probably two-thirds of sales represent products identified with automotive outlets, the stabilizing influence of manufactured goods is important for most of the large companies. Some makers, notably Firestone, are engaged in distribution of their own products together with other automotive items.

Although the industry has been noted in the past for cut-throat competition, it is questionable whether price-cutting would be permitted to get out of hand to such an extent as to impair earnings. The industry has been thorougly unionized with the result that costs probably differ only slightly from one plant to another. Productive facilities have not been too greatly enlarged. Inventory problems develop from time to time, but excessive output has proved temporary on other occasions in the recent past.

Substantial excess profits tax cushions are available for major companies to soften the impact of rising costs and narrower profit

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1954 Outlook for Tire Companies

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margins. Thus, the outlook appears more encouraging for the tire industry than for other categories of the automotive trade.

Tax relief hardly is expected to provide an important cushion for motor car manufacturers, since only General Motors (of the publicly owned companies) was accruing taxes at a rate higher than 52 per cent in the latter half of 1953. Chrysler and Packard reported earnings subject to EPT, but results in the latter part of the year appeared to be falling short of EPT liability. In general, therefore, elimination of the emergency levies promises to provide only a minimum of aid for the industry in counteracting the restrictive effects of keen competition. All, except the big concerns, face the prospect of a "return to normal" with more doubt than they have been accustomed to in many years. —END

BOOK REVIEWS

THE SPLENDID CENTURY

Social Life in the France of Louis XIV

By W. H. LEWIS

Pleasures and palaces are, of course an enormously entertaining part of this vivid account of France under Louis XIV. More important is Mr. Lewis' exploration of the political, economic, social and artistic forces which developed during the long reign of the Sun-King.

The reflection of Louis' pride and prejudice on religion and letters, on medicine and education, on nobles, peasants and bourgeoisie, makes a brilliant tapestry that brings 17th Century France into focus as sharply as though Mr. Lewis were writing of our own Middletown, U.S.A.

The opening account of Louis XIV's private life and loves sets the pace for this witty, provocative account of a century that, like our own, was a time of transition, dissatisfaction and progress.

This was the age of Molière, Racine, Corneille . . . the age of the *salons* and the graceful correspondents. It was the age which produced an "underground" Parisian group of wits, eccentrics and pleasure-seekers who refused to follow the Court to Versailles and kept their own society in Paris . . . a society which later became the nub of Regency France.

The character of the King . . . and all the seething, turbulent, insensitive conglomeration of people and events that made his reign memorable . . . are fused in the remarkable whole of W. H. Lewis' *Louis XIV*.

Sloane Associates $5.00

The Growth of Integrated Oil Companies

This book is a study of the process of progressive adaptation which has resulted in the gradual emergence of large, integrated companies as the predominant form of business organization in the oil industry. The authors examine (1) the structure of the oil industry as it existed in 1950, (2) the technological, economic, and business circumstances which have encouraged vertical integration, (3) the differences and similarities in the structures of a selected group of oil companies and the nature of the managerial process by which the companies have continually adapted their structures to new conditions, and (4) the changes which have taken place in the participation of small business in the refining segment of the industry during the 30-year period 1920-1950 and the reasons why the changes have occurred.

Harvard Business School $12.00

YOUR INVESTMENTS 1954 Edition

By LEO BARNES, Ph.D.

Prepared by Dr. Leo Barnes, noted economist and investment analyst, YOUR INVESTMENTS 1954 shows the advantages and disadvantages *for you* of every type of investment, from savings banks and Savings and Loan Associations to Mutual Funds, Stocks, Bonds, Rights and Warrants, etc. Not only does it show you how to put your money to work profitably, when to buy and sell, how to use Formula Plans, Dollar Averaging and other professional techniques for successful investing—but it puts at your fingertips thousands of carefully selected specific investment opportunities.

American Research Council $3.00

The Night of the Hunter

By DAVIS GRUBB

Here is an extraordinary story. First of all, it is as fast-paced, has as much sheer narrative quality as any novel we have come across in recent years. Then, too, it is written with an uncanny feeling for the people, the time and the place involved. And as a study in human terror, it is a minor classic.

That part of West Virginia which lies in the valley of the Ohio River is a haunted and haunting land. There, in the desolate days of the early nineteen-thirties, two small children find themselves saddled with a dark and dreadful heritage: a bloody treasure, the shadow of a hanged father and the fateful pledge they made him one afternoon in a wind-swept meadow by the river.

As for the tale itself—strange and dreadful as a shantyboat ballad—it is the story of people at that moment in their lives when they are small and no one understands them—when no one knows that the shadow at the nursery window is really a tiger and not the shadows of leaves beneath the moon; that the creak of sleeping rooms is the step of Doom itself, and that every midnight beneath a child's counterpane is the night of the hunter.

Harper $3.00

The Economic Development of Mexico

This report is the most complete financial study to be published on the economy of Mexico in recent times. Much of this data—on national income, public and private investment, production and consumption—is new and now appears for the first time.

The result of more than a year's collaboration between Mexican and International Bank economists, the report deals with the long-term trends in the Mexican economy, with special reference to Mexico's capacity to absorb additional foreign investment. Its main purposes are twofold: (1) a review of the course and effects of investment in Mexico from 1939 to 1950, and (2) an assessment of the prospects for the national income and balance of payments for the next ten years.

Johns Hopkins Press $10.00

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